

FINANCIAL STATEMENTS

CONSOLIDATED INCOME STATEMENT

for the year ended 30 January 2021

Our revenue minus our incurred expenses showing the Partnership's overall profit for the year

Notes	2021 ¹ £m	2020 £m
2.1, 2.2	Revenue	10,771.8
	Cost of sales	(7,408.6)
	Gross profit	3,363.2
2.3	Other operating income	102.4
2.4	Operating expenses before exceptional items and Partnership Bonus	(3,178.1)
3.3	Share of profit/(loss) of joint venture (net of tax)	0.9
2.1	Operating profit before exceptional items and Partnership Bonus	288.4
2.5	Exceptional items	(648.0)
2.1	Operating (loss)/profit before Partnership Bonus	(359.6)
5.1	Finance costs	(168.9)
5.1	Finance income	11.3
	(Loss)/profit before Partnership Bonus and tax	(517.2)
	Partnership Bonus	–
2.6	(Loss)/profit before tax	(517.2)
2.9	Taxation	65.2
	(Loss)/profit for the year	(452.0)
2.1	Profit before Partnership Bonus, tax and exceptional items	130.8

¹ 53-week year

The accompanying notes are an integral part of the financial statements.

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

for the year ended 30 January 2021

Profit as shown in the income statement plus other income and expenses not yet realised, giving total comprehensive income for the year

Notes	2021 ¹ £m	2020 £m
(Loss)/profit for the year	(452.0)	108.4
Other comprehensive (expense)/income:		
Items that will not be reclassified to profit or loss:		
6.1 Remeasurement of defined benefit pension scheme	(237.4)	(193.6)
2.9 Movement in deferred tax on pension scheme	53.6	30.4
2.9 Movement in current tax on pension scheme	1.6	2.5
Items that may be reclassified subsequently to profit or loss:		
Fair value loss on cash flow hedges	(5.6)	(8.7)
2.9 Movement in deferred tax on cash flow hedges	0.3	3.2
Gain on foreign currency translations	–	0.3
Other comprehensive expense for the year	(187.5)	(165.9)
Total comprehensive expense for the year	(639.5)	(57.5)

¹ 53-week year

The accompanying notes are an integral part of the financial statements.

CONSOLIDATED BALANCE SHEET

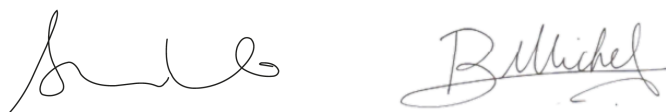
as at 30 January 2021

A financial snapshot of the Partnership, showing our assets and how they are financed

Notes		2021 £m	2020 £m
Non-current assets			
3.1	Intangible assets	467.9	495.5
3.2	Property, plant and equipment	2,983.5	3,535.4
3.2	Right-of-use assets	1,540.2	1,854.9
4.2	Trade and other receivables	18.0	16.5
7.2	Derivative financial instruments	0.1	0.1
3.3	Investment in and loans to joint venture	3.4	2.5
2.9	Deferred tax asset	103.4	0.2
		5,116.5	5,905.1
Current assets			
4.1	Inventories	643.9	612.9
4.2	Trade and other receivables	179.7	260.9
	Current tax receivable	9.0	–
7.2	Derivative financial instruments	7.2	4.8
3.4	Assets held for sale	10.6	1.5
5.3	Short-term investments	0.3	317.2
5.4	Cash and cash equivalents	1,518.2	598.3
		2,368.9	1,795.6
	Total assets	7,485.4	7,700.7
Current liabilities			
5.5	Borrowings and overdrafts	(107.8)	(43.1)
4.3	Trade and other payables	(1,543.2)	(1,513.9)
	Current tax payable	–	(9.8)
5.2, 5.6	Lease liabilities	(127.3)	(95.4)
4.4	Provisions	(193.6)	(108.6)
7.2	Derivative financial instruments	(20.9)	(18.7)
		(1,992.8)	(1,789.5)
Non-current liabilities			
5.5	Borrowings	(795.7)	(719.5)
4.3	Trade and other payables	(45.0)	(46.8)
5.2, 5.6	Lease liabilities	(1,910.0)	(1,999.5)
4.4	Provisions	(162.4)	(144.9)
7.2	Derivative financial instruments	(2.7)	(3.9)
6.1	Retirement benefit obligations	(646.9)	(417.4)

2.9	Deferred tax liability	(5.2)	(20.4)
		(3,567.9)	(3,352.4)
	Total liabilities	(5,560.7)	(5,141.9)
	Net assets	1,924.7	2,558.8
	Equity		
8.1	Share capital	0.6	0.6
	Other reserves	(7.7)	(7.8)
	Retained earnings	1,931.8	2,566.0
	Total equity	1,924.7	2,558.8

The financial statements on pages 119 to 198 were approved by the Board of Directors on 21 April 2021 and signed on its behalf by Sharon White and Bérangère Michel, Directors, John Lewis Partnership plc.



Registered number 00238937

Sharon White and Bérangère Michel

Directors, John Lewis Partnership plc

The accompanying notes are an integral part of the financial statements.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

for the year ended 30 January 2021

A reconciliation between the beginning and the end of the year which discloses profit or loss, items of comprehensive income/(expense) and any changes in ownership interests

Notes	Share capital £m	Capital redemption reserve £m	Capital reserve £m	Hedging reserve £m	Foreign currency translation reserve £m	Retained earnings £m	Total equity £m
Balance at 26 January 2019	0.6	5.0	1.4	(0.6)	0.1	2,613.5	2,620.0
Adjustment on initial application of IFRS 16 ¹	–	–	–	–	–	4.8	4.8
Balance at 27 January 2019	0.6	5.0	1.4	(0.6)	0.1	2,618.3	2,624.8
Profit for the year	–	–	–	–	–	108.4	108.4
6.1 Remeasurement of defined benefit pension scheme	–	–	–	–	–	(193.6)	(193.6)
Fair value loss on cash flow hedges	–	–	–	(8.7)	–	–	(8.7)
2.9 Tax on above items recognised in equity	–	–	–	3.2	–	32.9	36.1
Gain on foreign currency translations	–	–	–	–	0.3	–	0.3
Total comprehensive (expense)/income for the year	–	–	–	(5.5)	0.3	(52.3)	(57.5)
Hedging gains transferred to cost of inventory	–	–	–	(8.5)	–	–	(8.5)
Balance at 25 January 2020	0.6	5.0	1.4	(14.6)	0.4	2,566.0	2,558.8
Loss for the year	–	–	–	–	–	(452.0)	(452.0)
6.1 Remeasurement of defined benefit pension scheme	–	–	–	–	–	(237.4)	(237.4)
Fair value loss on cash flow hedges	–	–	–	(5.6)	–	–	(5.6)
2.9 Tax on above items recognised in equity	–	–	–	0.3	–	55.2	55.5
Gain on foreign currency translations	–	–	–	–	–	–	–
Total comprehensive expense for the year	–	–	–	(5.3)	–	(634.2)	(639.5)
Hedging losses transferred to cost of inventory	–	–	–	5.4	–	–	5.4
Balance at 30 January 2021	0.6	5.0	1.4	(14.5)	0.4	1,931.8	1,924.7

¹ The Partnership has initially applied IFRS 16 at 27 January 2019, using the modified retrospective approach. Under this approach, comparative information is not restated and the cumulative effect of applying IFRS 16 is recognised in retained earnings at the date of initial application which was 27 January 2019.

The accompanying notes are an integral part of the financial statements.

CONSOLIDATED STATEMENT OF CASH FLOWS

for the year ended 30 January 2021

The Partnership's cash inflows and outflows analysed by various key activities

Notes		2021 ¹ £m	2020 £m
2.7	Cash generated from operations before Partnership Bonus	831.3	713.4
	Net taxation paid	(16.0)	(17.2)
	Pension deficit reduction payments	(7.5)	(12.8)
	Finance costs paid	(114.7)	(109.0)
	Net cash generated from operating activities before Partnership Bonus	693.1	574.4
	Partnership Bonus paid	(31.4)	(45.8)
5.5	Net cash flow in relation to Share Incentive Plan shares	(11.0)	(14.4)
	Net cash generated from operating activities after Partnership Bonus	650.7	514.2
	Cash flows from investing activities		
	Purchase of property, plant and equipment	(122.5)	(191.5)
	Purchase of intangible assets	(99.1)	(146.7)
	Proceeds from sale of property, plant and equipment and intangible assets	142.2	174.9
	Finance income received	4.0	4.9
5.2	Cash inflow/(outflow) from short-term investments	316.1	(51.4)
	Net cash generated from/(used in) investing activities	240.7	(209.8)
	Cash flows from financing activities		
	Finance costs paid in respect of bonds	(31.1)	(54.2)
	Finance costs paid in respect of financial instruments	–	(0.7)
	Payment of capital element of leases	(90.1)	(92.7)
5.5	Payments to Share Incentive Plan shareholders	(0.3)	(0.3)
	Cash inflow/(outflow) from borrowings	150.0	(275.0)
	Net cash generated from/(used in) financing activities	28.5	(422.9)
	Increase/(decrease) in net cash and cash equivalents	919.9	(118.5)
5.2	Net cash and cash equivalents at beginning of the year	598.3	716.8
	Net cash and cash equivalents at end of the year	1,518.2	598.3
5.4	Net cash and cash equivalents comprise:		
	Cash at bank and in hand	178.2	151.2
	Short-term deposits	1,340.0	447.1
		1,518.2	598.3

¹ 53-week year

The accompanying notes are an integral part of the financial statements.

Notes to the consolidated financial statements

I ACCOUNTING INFORMATION

IN THIS SECTION

In this section, we explain the basis of preparation of the Partnership's consolidated financial statements and accounting policies which relate to the financial statements as a whole. Where an accounting policy or critical accounting estimate and judgement is specific to a particular note, it is described within that note.

This section also details new or amended accounting standards and when they are effective. We also give an explanation of the impact these accounting standards have had, or the current view of the impact they will have, on the Partnership's consolidated financial statements.

I.1 Accounting Principles and Policies

PURPOSE

We prepare our financial statements under international accounting standards in conformity with the requirements of the Companies Act 2006, and in compliance with International Financial Reporting Standards (IFRS) and IFRS Interpretations Committee interpretations as adopted pursuant to Regulation (EC) No 1606/2002 as it applies in the European Union (IFRSs as adopted by the EU). We have set out our significant accounting policies in these notes. These have been applied in the current reporting period and apply to the financial statements as a whole. All of the Partnership's accounting policies are set in line with the requirements of IFRS.

Changes to significant accounting policies are described in note 1.1.4.

I.1.1 BASIS OF PREPARATION

The consolidated financial statements are prepared under the historical cost convention, with the exception of certain land and buildings which are included at their deemed cost amounts, and financial assets and financial liabilities (including derivative financial instruments) which are valued at fair value through profit or loss. These consolidated financial statements have been prepared in accordance with international accounting standards in conformity with the requirements of the Companies Act 2006, and in compliance with International Financial Reporting Standards (IFRS) and IFRS Interpretations Committee interpretations as adopted pursuant to Regulation (EC) No 1606/2002 as it applies in the European Union (IFRSs as adopted by the EU).

The preparation of consolidated financial statements in conformity with IFRS requires the use of judgements and estimates that affect the reported amounts of assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenues and expenses during the year. Although these estimates are based on management's best knowledge of the amount, event or actions, actual results ultimately may differ from those estimates. The critical accounting estimates and key judgements made by management are disclosed in section 1.1.6.

The financial year is the 53 weeks ended 30 January 2021 (prior year: 52 weeks ended 25 January 2020).

Impact of Covid-19

The Covid-19 pandemic has had a significant impact on the Partnership's financial performance and position for the year ended 30 January 2021. Additional consideration has been given to the key areas of estimation uncertainty and judgement noted below:

- The basis for the expected liability for customer returns of goods sold has been revised and the returns provision increased following shop closures during lockdown (see note 4.4);

Notes to the consolidated financial statements (continued)

1.1 ACCOUNTING PRINCIPLES AND POLICIES (CONTINUED)

1.1.1 BASIS OF PREPARATION (CONTINUED)

- The net realisable value of inventory has been reassessed and appropriate provision made to reflect the higher levels of stock held at year-end (see note 4.1);
- The value of rebates recognised within trade receivables and accrued income at year-end reflects the realistic expectation of supplier income to be received in respect of the 2020/21 financial year (see note 4.2); and
- The impact of Covid-19 has been factored into our impairment assessment for tangible assets, most notably our re-evaluation of online allocation and near-term trading forecast but also the longer term impact has been considered through applying a risk factor to the discount rate used within the modelling (see note 3.2).

Consideration has also been given as to whether costs and income relating to Covid-19 meet the definition of exceptional items and whether, individually or collectively, they are significant by virtue of their size and nature. Whilst these criteria are met in a number of cases (for example, furlough income and costs of personal protective equipment), given the diverse actions arising in response to the Covid-19 pandemic, isolating and quantifying all individual items of cost and income in an even handed way is difficult to achieve and could be misleading. On this basis, it has been deemed not appropriate to classify costs or income associated with Covid-19 as exceptional.

Going concern

In determining the appropriate basis of preparation of the financial statements for the year ended 30 January 2021, the Directors are required to consider whether the Partnership can continue in operational existence for a period of at least 12 months from the approval of the Annual Report and Accounts. The Board has concluded that it is appropriate to adopt the going concern basis, having undertaken a rigorous assessment of the financial forecasts with specific consideration to the trading position of the Partnership in the context of the current Covid-19 pandemic in the UK, for the reasons set out below.

As at 30 January 2021, the Partnership had total assets less current liabilities of £5.5bn and net assets of £1.9bn. Liquidity as at that date was £2.0bn, made up of cash and cash equivalents, short-term investments and undrawn committed credit facilities of £500m. This increase compared to the £1.4bn liquidity position reported at the 25 January 2020 year-end has been achieved through the active measures undertaken to strengthen the Partnership's liquidity position in response to the risks posed by the Covid-19 pandemic during 2020/21. In addition to a number of operational cash preservation actions taken, the following has also been completed:

- Securing £300m from the Government's Covid Corporate Financing Facility (CCFF), repaid on 21 January 2021 ahead of maturity in March 2021;
- Obtaining two new medium term loans of £75m each maturing in November 2022 and December 2022;
- Generating £136m proceeds (exc VAT) on the sale and leaseback of 11 Waitrose stores;
- Renegotiating the revolving credit facilities covenants for the year-end 2020/21 and 2021/22 tests;
- Extending £386m of the £450m revolving credit facility, which was due to expire in November 2021, to November 2022 (£64m will remain as expiring in November 2021); and
- Extending a £50m bilateral credit facility from March 2021 to September 2022.

Despite the events of the past year, 2020/21 year-end results are encouraging, demonstrating resilience in a volatile market. Both Waitrose stores and its online activities continued to operate during the lockdown periods given that they were designated by the UK Government as part of an 'essential industry' and customer demand increased due to the closure of hospitality services. For John Lewis, online performance has been

Notes to the consolidated financial statements (continued)

1.1 ACCOUNTING PRINCIPLES AND POLICIES (CONTINUED)

1.1.1 BASIS OF PREPARATION (CONTINUED)

strong and this is anticipated to continue into 2021/22, particularly with the continued temporary closure of stores during the early part of the financial year. On 24 March 2021, it was announced that a further eight John Lewis stores have been proposed for closure, subject to consultation, and have not reopened since the lockdown was lifted. The full impact of the Covid-19 pandemic is unknown at this time and is unpredictable, and our key priority continues to be the health and wellbeing of our Partners and customers, while we maintain our high standards of service.

Accordingly, the Directors have reviewed the continually evolving situation relating to Covid-19 and considered its longer term impacts, for example on consumer demand, by modelling a downside scenario to cover the going concern assessment period, being for the 12 month period ending April 2022. In addition, as part of the assessment of viability, the Directors have modelled a further period to 28 January 2023 in order to cover the maturity of the revolving credit facility and term loan repayments which fall due ahead of this date. For the purposes of the going concern assessment, it is assumed that all Partnership borrowings are repaid at their maturity date and that no further refinancing or funding is undertaken. The downside case represents an increasingly severe but plausible scenario. It assumes lockdown conditions continue into Q2 2021/22 and that John Lewis stores are closed during this period, with online sales remaining operational but with reduced demand. Waitrose remains operational both in store and online, albeit with sales and margin pulled back from current trading levels which are significantly ahead of pre-Covid-19 levels in 2019/20. This is followed by a further, deeper recession throughout the assessment period resulting in a further reduction in sales, as well as a reduction in margin across both brands and a number of one-off events, e.g. a regulatory and data security breach, higher impairment charge, increasing pension deficit and project under-delivery. The impact of the downside adjustments has been reviewed against the Partnership's projected cash position and financial covenants. Should these occur, mitigating actions would be required to ensure that the Partnership remains liquid and financially viable.

The downside modelled has a significant adverse impact on sales, margin and cash flow. In response, the Directors have identified available mitigations in the going concern assessment period, all within management's control, to reduce costs and optimise the Partnership's cash flow, liquidity and covenant headroom. The majority of these mitigations would only be triggered in the event of the downside scenario materialising. Mitigating actions include, but are not limited to, reducing capital and investment expenditure through postponing or pausing projects and change activity; deferring or cancelling discretionary spend (including discretionary Partner benefits); and reducing marketing spend.

The Partnership has no other debt or facilities that mature prior to November 2021 when the £75m term loan and £64m (of a total £450m) syndicated facility both mature (see note 7.1.2). The Partnership's committed facilities contain one financial performance covenant, which is a profit based covenant ('Fixed Charge Cover'). The downside scenario modelled indicates that without mitigating actions a number of the Partnership's covenants relating to the bonds, term loans and undrawn committed credit facilities would breach at the next balance sheet date due to the reduction in profits and net assets modelled. However, whilst the scenario indicates breaches, the same scenario indicates that post mitigating actions, the cash low point under such a scenario would be £640m, under which our covenants would not breach, the bonds would not be required to be repaid early and the committed credit facilities would remain undrawn. The Partnership would prefer to retain the option to utilise its facilities, therefore, covenant compliance will continue to be monitored closely, and if deemed necessary, the Partnership will seek a covenant relaxation from its bank group, or take other actions to replace the level of liquidity support provided by these facilities.

Notes to the consolidated financial statements (continued)

1.1 ACCOUNTING PRINCIPLES AND POLICIES (CONTINUED)

1.1.1 BASIS OF PREPARATION (CONTINUED)

The downside detailed above is deemed by the Directors to provide a severe but plausible stress test on our ability to adopt the going concern basis. This includes a significant reduction in 2021/22 performance as a result of Covid-19 and reduced trading performance across both brands, resulting in a pre-mitigation cash reduction to forecast. Uncertainty exists in respect of the potential impact of Covid-19 in 2021/22 and its longer term economic impact. We have made our assessment based on our best view of the severe but plausible downside scenario that we might face. If outcomes are unexpectedly significantly worse, the Directors would need to consider what additional mitigating actions were needed, for example, accessing the value of our asset base to support liquidity. Consequently, the Directors have concluded that to stress test a level of increased severity (beyond the downside modelled) that may create circumstances that represent a material uncertainty and which may cast significant doubt about the Partnership's ability to continue as a going concern, is not currently reasonable.

Consequently, the Directors have concluded that the Partnership and Company will have sufficient funds to continue to meet its liabilities as they fall due for at least 12 months from the date of approval of the Annual Report and Accounts and therefore have prepared the financial statements on a going concern basis.

1.1.2 BASIS OF CONSOLIDATION

The Partnership's consolidated financial statements incorporate the results for the Company and all entities controlled by the Company including its subsidiaries and the Partnership's share of its interest in joint ventures made up to the year-end date.

1.1.3 SUBSIDIARIES AND RELATED UNDERTAKINGS

Subsidiary undertakings are all entities over which the Partnership has control. Control exists when the Partnership has the power to direct the relevant activities of an entity so as to affect the return on investment. Joint ventures are investments for which the Partnership shares joint control with a third party. All intercompany balances, transactions and unrealised gains are eliminated upon consolidation.

The following UK subsidiaries will take advantage of the audit exemption set out within section 479A of the Companies Act 2006 for the year ended 30 January 2021. Unless otherwise stated, the undertakings listed below are registered at 171 Victoria Street, London, SW1E 5NN, United Kingdom, and all have a single class of ordinary share with a nominal value of £1.

Notes to the consolidated financial statements (continued)
I.1 ACCOUNTING PRINCIPLES AND POLICIES (CONTINUED)
I.1.3 SUBSIDIARIES AND RELATED UNDERTAKINGS (CONTINUED)

Company name	Company number
Herbert Parkinson Limited	00318082
JLP Scotland Limited ¹	SC370158
John Lewis Car Finance Limited	04328890
John Lewis International Limited	07501166
John Lewis Partnership Pensions Trust	00372106
John Lewis PT Holdings Limited	07106855

¹ Registered office is John Lewis Aberdeen, George Street, Aberdeen, AB25 1BW.

The following UK subsidiaries will take advantage of the exemption from preparing and filing individual accounts as set out within section 394A(1) and 448A of the Companies Act 2006 for the year ended 30 January 2021. Unless otherwise stated, the undertakings listed below are registered at 171 Victoria Street, London, SW1E 5NN, United Kingdom, and all have a single class of ordinary share with a nominal value of £1.

Company name	Company number
Buy.Com Limited	03709785
Jonelle Jewellery Limited	00223203
Jonelle Limited ¹	00240604
Peter Jones Limited	00285318
The Odney Estate Limited	02828420

¹ Jonelle Limited has three classes of shares, each with a nominal value of £1.

As required, John Lewis plc, the principal trading subsidiary of the Partnership, guarantees all outstanding liabilities to which the subsidiary companies listed in the tables above are subject at the end of the financial year, until they are satisfied in full. This is in accordance with Section 479C of the Companies Act 2006. The guarantee is enforceable against John Lewis plc as the parent undertaking, by any person to whom the subsidiary companies listed above are liable in respect of those liabilities.

I.1.4 AMENDMENTS TO ACCOUNTING STANDARDS

The following standards, amendments and interpretations were applicable for the period beginning 26 January 2020, and were adopted by the Partnership for the year ended 30 January 2021 and have not had a significant impact on the Partnership's loss for the year, equity or disclosures:

- Amendments to References to Conceptual Framework in IFRS Standards
- Amendments to IAS 1 and IAS 8: Definition of Material
- Amendments to IFRS 3: Business Combinations
- Amendments to IFRS 9, IAS 39 and IFRS 7: Interest Rate Benchmark Reform
- Amendments to IFRS 16: Covid-19 Related Rent Concessions

Notes to the consolidated financial statements (continued)

1.1 ACCOUNTING PRINCIPLES AND POLICIES (CONTINUED)

1.1.4 AMENDMENTS TO ACCOUNTING STANDARDS (CONTINUED)

The following are new accounting standards and amendments to existing standards that have been published and are applicable for the Partnership's accounting periods beginning 31 January 2021 onwards, which the Partnership has not adopted early:

- Amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16: Interest Rate Benchmark Reform – Phase 2 (applicable for the period beginning 31 January 2021)

The adoption of these standards is not expected to have a significant impact on the Partnership's consolidated financial statements.

The Partnership is also currently assessing the impact of the following new and amended standards, which have been issued and are awaiting endorsement by the European Union:

- Amendments to IAS 16: Property, Plant and Equipment: Proceeds before Intended Use (applicable for the period beginning 30 January 2022)
- Amendments to IFRS 3: Business Combinations (applicable for the period beginning 30 January 2022)
- Amendments to IFRS 37: Onerous Contracts – Cost of Fulfilling a Contract (applicable for the period beginning 30 January 2022)
- Amendments to IAS 1: Classification of Liabilities as Current or Non-current (applicable for the period beginning 29 January 2023)
- IFRS 17 Insurance Contracts (applicable for the period beginning 29 January 2023)
- Amendments to IFRS 17 Insurance Contracts (applicable for the period beginning 29 January 2023)

1.1.5 SIGNIFICANT ACCOUNTING POLICIES

Where significant accounting policies are specific to a particular note, they are described within that note. Other significant accounting policies are included below.

Financial instruments

The Partnership uses derivative financial instruments to manage its exposure to fluctuations in financial markets, including foreign exchange rates, interest rates and certain commodity prices. Derivative financial instruments used by the Partnership include forward currency and commodity contracts, interest rate swaps and foreign exchange options.

Derivative financial instruments are initially measured at fair value. The fair value of a derivative financial instrument represents the difference between the value of the outstanding contracts at their contracted rates and a valuation calculated using the forward rates of exchange and interest rates prevailing at the balance sheet date. Subsequent to initial recognition, unless designated as hedging instruments, derivatives are measured at fair value and any gains or losses arising from changes in fair value are taken directly to the income statement.

Hedge accounting has been adopted for derivative financial instruments where possible. At inception of designated hedging relationships, the risk management objective and strategy for undertaking the hedge is documented. Additionally, the Partnership documents the economic relationship between the item being hedged and the hedging instrument, and a qualitative and forward-looking approach is taken to assessing whether the hedge will be effective on an ongoing basis. At the end of each financial reporting period, for each derivative financial instrument, prospective testing is performed to ensure that the economic relationship remains; the impact of credit risk on changes in values is reviewed; and the hedging ratio is reassessed.

Hedge accounting is discontinued when the hedging instrument matures, is terminated or exercised, the designation is revoked or it no longer qualifies for hedge accounting.

Notes to the consolidated financial statements (continued)

I.1 ACCOUNTING PRINCIPLES AND POLICIES (CONTINUED)

I.1.5 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

A cash flow hedge is a hedge of the exposure to variability of cash flows that are either attributable to a particular risk associated with a recognised asset or liability, or a highly probable forecast transaction. The effective portion of changes in the intrinsic fair value of derivatives that are designated and qualify as cash flow hedges are recognised in equity. All other changes in fair value are recognised immediately in the income statement within other gains or losses. When the hedged forecast transaction subsequently results in the recognition of a non-financial item such as inventory, the amount accumulated in the hedging reserve is included directly in the initial cost of the non-financial item when it is recognised. For all other hedged forecast transactions, amounts accumulated in equity are recycled to the income statement in the periods when the hedged item affects profit or loss. Derivative financial instruments qualifying for cash flow hedge accounting are principally forward currency contracts.

A fair value hedge is a hedge of the exposure to changes in the fair value of a recognised asset or liability. Derivative financial instruments qualifying for fair value hedge accounting are principally interest rate swaps and foreign exchange options.

The table below sets out the Partnership's accounting classification of each class of its financial assets and liabilities:

	Note	Measurement
Financial assets:		
Trade receivables	4.2	Amortised cost
Other receivables	4.2	Amortised cost
Short-term investments	5.3	Amortised cost
Cash and cash equivalents	5.4	Amortised cost
Derivative financial instruments	7.2	Fair value through profit and loss or OCI ¹
Financial liabilities:		
Borrowings and overdrafts	5.5	Amortised cost
Trade payables	4.3	Amortised cost
Other payables	4.3	Amortised cost
Accruals	4.3	Amortised cost
Partnership Bonus	4.3	Amortised cost
Lease liabilities	5.2, 5.6	Amortised cost
Derivative financial instruments	7.2	Fair value through profit and loss or OCI ¹

¹ Cash flow hedges designated as being in a hedged relationship upon initial recognition are measured at fair value with the effective portion of any changes in the intrinsic value recognised in equity.

Notes to the consolidated financial statements (continued)

I.1 ACCOUNTING PRINCIPLES AND POLICIES (CONTINUED)

I.1.5 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Offsetting

Balance sheet netting only occurs to the extent that there is the legal ability and intention to settle net. As such, bank overdrafts are presented in current liabilities to the extent that there is no intention to offset with any cash balances.

Foreign currencies

Transactions denominated in foreign currencies are translated at the exchange rate at the date of the transaction. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the income statement, except when deferred in other comprehensive income as qualifying cash flow hedges. On translation of assets and liabilities in foreign currencies, movements go through the foreign currency translation reserve.

Government grants

The Partnership accounts for government grants on an accruals basis and has elected to present receipts relating to government grants as a deduction in reporting the related expense. During the year ended 30 January 2021, the Partnership has recognised grant income receipts from the UK Government's Coronavirus Job Retention Scheme of £54.8m.

I.1.6 KEY JUDGEMENTS AND CRITICAL ACCOUNTING ESTIMATES

Estimates and judgements are continually evaluated and are based on historical experience and other relevant factors, including management's reasonable expectations of future events.

The preparation of the financial statements requires management to make estimates and judgements concerning the future. The resulting accounting estimates will, by definition, be likely to differ from the related actual results. The estimates and judgements that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are:

Areas of significant risk	Note	Critical accounting estimates and key judgements
Retirement benefits	6.1	Critical accounting estimates
Provisions and liabilities	4.3, 4.4	Critical accounting estimates
Impairment	3.1, 3.2	Critical accounting estimates
Depreciation and amortisation	3.1, 3.2	Critical accounting estimates
Value of intangible work in progress	3.1	Key judgements
Application of residual values	3.2	Key judgements
Exceptional items	2.5	Key judgements
Revenue/deferred income	4.3	Critical accounting estimates
Lease terms	5.6	Key judgements

Notes to the consolidated financial statements (continued)

1.2 NON-GAAP MEASURES

PURPOSE

Our financial statements disclose financial measures which are required under IFRS. We also report additional financial measures that we believe enhance the relevance and usefulness of the financial statements. These are important for understanding underlying business performance, and they are described as non-GAAP measures. In this note, we have explained what the primary non-GAAP financial measures are and why we use them. For definitions, and where applicable, reconciliations, of other non-GAAP measures, please see the glossary on pages 220 to 228.

1.2.1 TOTAL TRADING SALES

Total trading sales represents the full customer sales value including VAT as reported weekly to the Partnership's Executive Team, before adjustments for sale or return sales and other accounting adjustments. This measure shows the headline sales trend.

1.2.2 TRADING OPERATING PROFIT

Trading operating profit (TOP) is based on operating profit, but excludes centrally managed costs. These centrally managed costs are outside of the direct influence and control of the brands and are reviewed by the Executive Team at a Partnership level in aggregate. TOP is used to assess the performance of the John Lewis and Waitrose brands and determine the allocation of resources to those segments.

1.2.3 CENTRALLY MANAGED COSTS

Centrally managed costs include all Partnership fixed property costs, head office costs, and one-off adjusting items. One-off adjusting items are those that do not meet the Partnership's definition of "exceptional items", because they are considered to be relevant to the principal activities of the business. However, these are removed from the trading operating profit of each brand, as they are non-recurring in a business-as-usual scenario. This allows management to better assess the underlying performance.

1.2.4 EXCEPTIONAL ITEMS

The separate reporting of exceptional items helps to provide an indication of the Partnership's underlying business performance. Exceptional items relate to certain costs or incomes that individually or collectively, are significant by virtue of their size and nature. In considering the nature of an item, management's assessment includes, both individually and collectively, each of the following:

- Whether the item is outside of the principal activities of the business;
- The specific circumstances which have led to the item arising;
- The likelihood of recurrence; and
- If the item is likely to recur, whether the item is unusual by virtue of its size.

1.2.5 PROFIT BEFORE PARTNERSHIP BONUS AND TAX

Profit before Partnership Bonus and tax is presented as a separate financial statement caption within the consolidated income statement. This measure provides further information on the Partnership's underlying profitability, and is a core measure of performance for Partners.

1.2.6 NET DEBT

Net debt incorporates the Partnership's consolidated borrowings, bank overdrafts, fair value of derivative financial instruments and lease liabilities, less cash and cash equivalents, short-term investments and unamortised bond transaction costs. This measure indicates the Partnership's debt position, excluding the pension deficit.

Notes to the consolidated financial statements (continued)

2 PARTNERSHIP PERFORMANCE

IN THIS SECTION

This section focuses on our performance during the year ended 30 January 2021. Information is provided on segmental performance, revenue, other operating income, operating expenses, exceptional items, Partner-related costs and taxation. This section also includes a reconciliation of our (loss)/profit before tax to the cash generated from operations before Partnership Bonus, which shows how our performance translates into cash.

2.1 SEGMENTAL REPORTING

PURPOSE

During the year we analysed our performance between our two reporting segments, Waitrose and John Lewis. This analysis is consistent with how our Executive Team reviewed performance throughout the year.

ACCOUNTING POLICIES

Segmental reporting: *The Partnership's reporting segments are determined based on business activities for which operating results are reviewed by the chief operating decision-maker (CODM). The Partnership's CODM is the Executive Team and the reporting segments reflect the management structure of the Partnership.*

Partnership Bonus: *The Partnership Bonus is announced and paid to Partners each March and is determined in relation to the performance for the previous financial year. No Partnership Bonus is being paid for the year ended 30 January 2021.*

The Partnership Bonus is recorded in the year it relates to rather than the year it was declared because there is a constructive obligation to pay a Partnership Bonus and the amount can be reliably estimated once the results for the year are known.

IFRS 8 Operating Segments requires operating segments to be identified based on the way in which the Partnership's internal financial reporting is organised and regularly reviewed by the chief operating decision-maker (CODM) to allocate resources and to assess the performance of the different operating segments. The Partnership's reporting segments are determined based on the business activities of its brands (John Lewis and Waitrose) for which operating results are reviewed by the CODM.

The Partnership adopted a new organisational structure on 3 February 2020 to improve synergies between brands and allow more costs and resources to be managed centrally. At the same date, the internal decision-making process was reorganised and the CODM changed from the Partnership Board to the Executive Team.

The Executive Team reviews the operating performance for each brand (John Lewis and Waitrose) in the Partnership, creating new non-GAAP measures known as total trading sales and trading operating profit ("TOP") (see note 1.2).

As the Partnership's reportable segments have changed, the comparative information for 2020 has been restated to reflect this. In addition, as part of the new Partnership structure we have taken the opportunity to rationalise sales and margin reporting across the Partnership. Therefore, the trade of four food halls which had been included in the John Lewis segment is now reported within Waitrose, and the general merchandise sales of the Canary Wharf Waitrose shop are now reported within John Lewis.

Notes to the consolidated financial statements (continued)
2.1 SEGMENTAL REPORTING (CONTINUED)

2021	John Lewis £m	Waitrose £m	Partnership £m
Total trading sales	4,721.9	7,595.2	12,317.1
Value added tax	(766.9)	(438.9)	(1,205.8)
Sale or return and other accounting adjustments	(227.1)	(112.4)	(339.5)
Revenue	3,727.9	7,043.9	10,771.8
Trading operating profit¹	554.4	1,144.6	1,699.0
Centrally managed costs			(900.6)
Depreciation and amortisation			(510.0)
Operating profit before exceptional items and Partnership Bonus²			288.4
Exceptional items			(648.0)
Operating loss before Partnership Bonus			(359.6)
Finance costs			(168.9)
Finance income			11.3
Loss before Partnership Bonus and tax			(517.2)
Partnership Bonus			–
Loss before tax			(517.2)
Taxation			65.2
Loss for the year			(452.0)
Reconciliation of profit before Partnership Bonus, tax, and exceptional items to loss before tax:			
Profit before Partnership Bonus, tax and exceptional items			130.8
Partnership Bonus			–
Exceptional items			(648.0)
Loss before tax			(517.2)

1 Included in trading operating profit is other operating income of which £95.6m (split between operating segments: £50.0m John Lewis and £45.6m Waitrose) represents further income from external customers (see note 2.3). This is reported to the CODM separately as part of other income and expenses.

2 Included within operating profit before exceptional items and Partnership Bonus is a £0.9m share of profit of a joint venture in John Lewis. See note 3.3.

Notes to the consolidated financial statements (continued)

2.1 SEGMENTAL REPORTING (CONTINUED)

2020 ¹	John Lewis £m	Waitrose £m	Partnership £m
Total trading sales	4,829.9	6,917.3	11,747.2
Value added tax	(784.3)	(400.3)	(1,184.6)
Sale or return and other accounting adjustments	(267.6)	(143.7)	(411.3)
Revenue	3,778.0	6,373.3	10,151.3
Trading operating profit²	733.6	1,063.2	1,796.8
Centrally managed costs			(1,026.4)
Depreciation and amortisation			(538.9)
Operating profit before exceptional items and Partnership Bonus³			231.5
Exceptional items			107.4
Operating profit before Partnership Bonus			338.9
Finance costs			(175.3)
Finance income			13.7
Profit before Partnership Bonus and tax			177.3
Partnership Bonus			(30.9)
Profit before tax			146.4
Taxation			(38.0)
Profit for the year			108.4
Reconciliation of profit before Partnership Bonus, tax, and exceptional items to profit before tax:			
Profit before Partnership Bonus, tax and exceptional items			69.9
Partnership Bonus			(30.9)
Exceptional items			107.4
Profit before tax			146.4

1 The Partnership adopted a new organisational structure on 3 February 2020 and the CODM changed from the Partnership Board to the Executive Team. The Executive Team reviews the operating performance for each brand (John Lewis and Waitrose), creating new non-GAAP measures known as total trading sales and TOP. The 2020 comparative information has been restated to reflect this.

2 Included in trading operating profit is other operating income of which £118.4m (split between operating segments: £58.8m John Lewis and £59.6m Waitrose) represents further income from external customers (see note 2.3). This is reported to the CODM separately as part of other income and expenses.

3 Included within operating profit before exceptional items and Partnership Bonus is a £0.2m share of loss of a joint venture in John Lewis. See note 3.3.

Notes to the consolidated financial statements (continued)

2.2 REVENUE

PURPOSE

Revenue is generated solely from contracts with customers.

Revenue is measured based on the consideration specified in a contract with a customer. The Partnership recognises revenue when it transfers control over a good or service to a customer.

ACCOUNTING POLICIES

Revenue: *We evaluate our revenue with customers based on the five-step model under IFRS 15: 'Revenue from Contracts with Customers': (1) identify the contract with the customer; (2) identify the performance obligations in the contract; (3) determine the transaction price; (4) allocate the transaction price to separate performance obligations; and (5) recognise revenues when (or as) each performance obligation is satisfied. We generate the majority of our revenue from the sale of goods or from providing services to our customers.*

Revenue from the sale of goods and services is recognised when the Partnership has satisfied its performance obligations by transferring a promised good or service to the customer. The good or service is considered to be transferred when the customer obtains control of that good, or the service is complete. Revenue in respect of 'sale or return sales' which represents concession income is stated at the value of the margin that the Partnership receives on the transaction. Revenue is also net of Partner discounts and VAT, adjustments for the sale of free warranties and adjustments for expected customer returns. Revenue is recognised in respect of sales under bill and hold arrangements when the buyer takes control of the asset, even if it has not physically been transferred to the customer. Revenue under bill and hold arrangements is not recognised when there is simply an intention to acquire.

Sales of gift vouchers and gift cards are treated as liabilities, and revenue is recognised when the gift vouchers or cards are redeemed against a later transaction. Non-redemption revenue is recognised in proportion to the pattern of rights exercised by the customer based on assumptions regarding redemption rates and time to expiry. Certain entities within the Partnership sell products with a right of return, and experience is used to estimate and provide for the value of such returns at the time of sale. This is further discussed under inventory note 4.1.

Business is predominantly carried out in the United Kingdom and gross sales and revenue derive almost entirely from that source.

Notes to the consolidated financial statements (continued)

2.2 REVENUE (CONTINUED)

2.2.1 DISAGGREGATION OF REVENUE FROM CONTRACTS WITH CUSTOMERS

We analyse our revenue between goods and services. Goods are split into four major product lines: Grocery, Home, Fashion and Technology. Services currently comprise free warranties on selected goods. This presentation is consistent with how our Partnership Board and Executive Team review performance throughout the year. In line with our five-year Partnership Plan we expect our service offering to increase in the coming year and as such, will keep this reporting under review, including the classification of commission income from other services as other income rather than revenue.

	2021 £m	2020 £m
Major product lines		
Goods		
– Grocery	7,040.4	6,369.7
– Home	995.5	1,052.7
– Fashion	946.6	1,216.5
– Technology	1,695.5	1,350.8
Services		
– Free warranty	25.9	26.8
Other revenue	67.9	134.8
	10,771.8	10,151.3

2.2.2 REVENUE RECOGNITION POLICIES

The following table provides information about the nature of the major product and service lines generating revenue.

Type of product/ service	Nature and timing of satisfaction of performance obligations	Revenue recognition
Grocery	<p>Grocery products are principally sold by Waitrose and include food, drink, household and other items. Additionally, fuel sales and food halls are shown here.</p> <p>Customers obtain control of grocery products when the goods are received by the customer.</p> <p>Customers pay at the point of sale in Waitrose shops. Where a grocery product is ordered online, it is fulfilled by a Waitrose shop and customers are charged on the day of delivery.</p> <p>For business to business (B2B) customers, invoices are raised and are usually payable within 30 days.</p> <p>Waitrose accepts returns in accordance with a customer's statutory rights under consumer laws in the United Kingdom and has a discretionary goodwill policy. Under the goodwill policy, customers can return products within 35 days after receipt, if not entirely satisfied.</p>	<p>Revenue is recognised when the goods have been received by the customer and control obtained.</p> <p>Adjustments are recorded for returns where material, based on historic trends and recent sales patterns. The right to return goods is included under inventory, note 4.1.</p>
Home	<p>Home products are principally sold by John Lewis and include items intended for use in the home environment.</p> <p>Customers obtain control of home products when the goods are received by the customer.</p> <p>Customers pay at the point of sale in John Lewis shops. Where a home product is ordered online, it is generally fulfilled from a centralised location.</p> <p>For B2B customers, invoices are raised and are payable on a variety of payment terms up to 30 days.</p> <p>John Lewis accepts returns in accordance with a customer's statutory rights under consumer laws in the United Kingdom and has a discretionary goodwill policy. Under the goodwill policy, customers can return products within 35 days after receipt, if not entirely satisfied.</p>	<p>Revenue is recognised when the goods have been received by the customer and control obtained.</p> <p>Adjustments are recorded for returns where material, based on historic trends and recent sales patterns. The right to return goods is included under inventory, note 4.1.</p>
Fashion	<p>Fashion products are principally sold by John Lewis and include clothing, jewellery and other items. This also includes 'sale or return' sales.</p> <p>Customers obtain control of fashion products when the goods are received by the customer.</p> <p>Customers pay at the point of sale in John Lewis shops. Where a fashion product is ordered online, it is generally fulfilled from a centralised location.</p> <p>For B2B customers, invoices are raised and are payable on a variety of payment terms up to 30 days.</p> <p>John Lewis accepts returns in accordance with a customer's statutory rights under consumer laws in the United Kingdom and has a discretionary goodwill policy. Under the goodwill policy, customers can return products within 35 days after receipt, if not entirely satisfied.</p>	<p>Revenue is recognised when the goods have been received by the customer and control obtained.</p> <p>Adjustments are recorded for returns where material, based on historic trends and recent sales patterns. The right to return goods is included under inventory, note 4.1.</p>

Technology	<p>Technology products are principally sold by John Lewis and include televisions, computers, tablets and other electrical items.</p> <p>Customers obtain control of Technology products when the goods are received by the customer.</p> <p>Customers pay at the point of sale in John Lewis shops. Where a Technology product is ordered online, it is generally fulfilled from a centralised location.</p> <p>For B2B customers, invoices are raised and are payable on a variety of payment terms up to 30 days.</p> <p>John Lewis accepts returns in accordance with a customer's statutory rights under consumer laws in the United Kingdom and has a discretionary goodwill policy. Under the goodwill policy, customers can return products within 35 days after receipt, if not entirely satisfied.</p>	<p>Revenue is recognised when the goods have been received by the customer. When Technology products are sold with a free warranty an element of the sales price is allocated to the performance of that service (see below).</p> <p>Adjustments are recorded for returns where material, based on historic trends and recent sales patterns. The right to return goods is included under inventory, note 4.1.</p>
Free warranties	<p>The free service guarantee is provided with certain Technology products which are sold by John Lewis.</p> <p>Customers receive a free warranty of between two and five years on the purchase of specified Technology products. No separate payment is made for this free service guarantee.</p> <p>An element of the sales price of the Technology product is allocated to the free service guarantee on a cost plus margin basis. This amount is deducted from revenue and deferred on the balance sheet.</p>	<p>Revenue is deferred on the balance sheet and then released to the income statement over the period of the guarantee on a straight-line basis.</p> <p>Deferred income is shown under trade and other payables. See note 4.3.</p>
Other revenue	<p>Other revenue products/services are principally sold by John Lewis and includes catering, customer delivery and workrooms. Other revenue also includes non-redemption revenue relating to gift vouchers and gift cards that are never redeemed or expire unredeemed.</p> <p>Customers obtain control of other revenue products/services when the products/services have been rendered and the performance obligations have been met.</p> <p>Customers pay at the point of sale in John Lewis shops. Where other revenue products/services are ordered online, it is generally fulfilled from a centralised location.</p>	<p>Revenue is recognised when the products/services have been received by the customer and the performance obligations have been met.</p> <p>Non-redemption revenue is recognised in proportion to the pattern of rights exercised by the customer based on assumptions regarding redemption rates and time to expiry.</p>

Notes to the consolidated financial statements (continued)

2.3 OTHER OPERATING INCOME

PURPOSE

Other operating income is income that does not satisfy the definition of revenue in that it does not relate to the main trading operations of the Partnership.

ACCOUNTING POLICIES

Other operating income includes:

Commissions, backhauling, car park income and licence fees: *Income is recognised when the Partnership has satisfied its performance obligation by delivering a promised service to the customer in accordance with the transaction price agreed.*

Rental income: *Rental income is recognised on a straight-line basis based on the length of the contract and when the performance obligation of the contract is satisfied.*

Other income: *Other income is recognised when the services have been rendered to the customer and performance obligations have been met.*

	2021 £m	2020 £m
Other operating income		
Commissions	70.1	80.7
Rental income	8.0	8.6
Backhauling income	6.8	6.7
Car park income	4.4	11.1
Licence fees	3.7	2.7
Other income	9.4	15.3
	102.4	125.1

Other income mainly relates to concession income and data provision for industry research. It is made up of items that individually are not material and no other material groups were considered to be shown.

2.4 OPERATING EXPENSES BEFORE EXCEPTIONAL ITEMS AND PARTNERSHIP BONUS

PURPOSE

We analyse operating expenses into shop operating expenses and administrative expenses. Shop operating expenses are directly associated with the sale of goods and services. Administrative expenses are those which are not directly related to the sale of goods and services.

	2021 £m	2020 £m
Operating expenses before exceptional items and Partnership Bonus		
Shop operating expenses	(2,141.1)	(2,190.4)
Administrative expenses	(1,037.0)	(1,065.1)
	(3,178.1)	(3,255.5)

Notes to the consolidated financial statements (continued)

2.4 OPERATING EXPENSES BEFORE EXCEPTIONAL ITEMS AND PARTNERSHIP BONUS (CONTINUED)

In addition to the items disclosed in note 2.6, within operating expenses before exceptional items and Partnership Bonus we include charges such as marketing expenses, general rates and customer delivery.

2.5 EXCEPTIONAL ITEMS

PURPOSE

Exceptional items are items of income/expense that are significant by virtue of their size and nature (see note 1.2.4). We believe these exceptional items are relevant for a better understanding of our underlying business performance, and exceptional items are therefore highlighted separately on the face of the income statement. This note provides detail of the exceptional items reported in both the current and prior year.

KEY JUDGEMENTS

Exceptional items: *Exceptional items are those where, in management's opinion, their separate reporting provides a better understanding of the Partnership's underlying business performance; and which are significant by virtue of their size and nature. In considering the nature of an item, management's assessment includes, both individually and collectively, whether the item is outside the principal activities of the business; the specific circumstances which have led to the item arising; the likelihood of recurrence; and if the item is likely to recur, whether it is unusual by virtue of its size.*

No single criterion alone classifies an item as exceptional, and therefore management must exercise judgement when determining whether, on balance, presenting an item as exceptional will help users of the financial statements understand the Partnership's underlying business performance.

Exceptional items	2021 Operating (expense)/ income £m	2021 Taxation credit/ (charge) £m	2020 Operating (expense)/ income £m	2020 Taxation credit/ (charge) £m
Strategic restructuring and redundancy programmes				
Head office reviews	(96.1)	18.3	(35.6)	6.6
Physical estate	(93.7)	15.6	(27.4)	6.2
Shop operations	0.6	(0.1)	(0.7)	0.1
	(189.2)	33.8	(63.7)	12.9
Shop impairments (Waitrose)	9.6	(1.3)	13.3	(1.7)
Shop impairments (John Lewis)	(468.1)	72.2	(110.3)	13.9
John Lewis supply chain	–	–	9.1	(0.8)
Pay provision	(0.3)	0.1	–	–
Legal settlement	–	–	10.0	(1.9)
Pension closure	–	–	249.0	(42.3)
	(648.0)	104.8	107.4	(19.9)

Notes to the consolidated financial statements (continued)

2.5 EXCEPTIONAL ITEMS (CONTINUED)

Strategic restructuring and redundancy programmes

The Partnership Plan envisages a significant level of transformation to ensure the Partnership is thriving for both Partners and customers.

Given the scale of the transformation, the programmes of activity will take a number of years to deliver. The costs incurred over the life of the change programmes outlined are significant in value and, given the level of change, they are significant in nature, therefore the Partnership considers them exceptional items. The financial impact of these programmes for 2021 is detailed below:

Head office reviews: The transformation of pan-Partnership functions and other head office operations continues at pace. Previously, the main focus, beginning at the end of 2017, was the review and centralisation of a number of head office functions. Given the scale of the change, the delivery of these reviews was expected to take four years. At the January 2020 year-end these reviews were well progressed and we expected that costs would continue over the next two years. However, due to Covid-19, the wider programme was delayed with some reviews being temporarily paused.

With the launch of the Partnership Plan, the review of head office functions has become wider and deeper than previously envisaged and this has led to the announcement of the Head Office Transformation (HOT) programme. HOT builds on the centralisation of the earlier reviews but additionally seeks to ensure that the head office functions can deliver on the Lean, Simple, Fast objective central to cost reduction in the Partnership Plan. This stage of the head office reviews is well progressed and we still expect this programme to be broadly complete in the next 12-18 months. In 2021 we have recognised charges of £96.1m (2020: £35.6m) in relation to these reviews. The charges primarily relate to providing for redundancy costs; these costs are expected to be largely paid during 2021/22 but are provided once announced to Partners.

Physical estate: Since 2017 we have been working on our programme of optimising our existing estate and initially we expected that the programme would last five years. With the launch of the Partnership Plan, and the acceleration of change we have seen in customer shopping behaviour over the last year we have refocused on the need to ensure our shops reflect how our customers want to shop - 'right space, right place' - and as a result we anticipate that these changes may now be extended to 2025/26.

This year we have recognised a net exceptional charge of £93.7m (2020: £27.4m). The net charge includes the impairment of assets (reflecting the shortening of the useful economic life), accelerated depreciation of buildings, fixtures and fittings and management's best estimate of closure costs including onerous leases, dilapidations and, where closure has been approved and announced, redundancy costs. The impairment charge for the Waitrose and John Lewis shop closures during the year are included in this category. Where income in relation to previously estimated costs has been realised in the year, these have been shown net, reflecting that the original expenses were shown as exceptional.

Announcements were made on 24 March 2021 in relation to the proposed closure of eight shops. Since the shops were neither approved nor announced for closure as at 30 January 2021, no costs associated with closure or related redundancies have been included in the charge for the year.

Shop operations: Alongside the assessment of our physical estate, we also identified that the way in which we run and manage our shops would require adjustment. In order to improve the customer experience and efficiencies in our shops, we have made a number of changes in our shop operating models. This has included

Notes to the consolidated financial statements (continued)

2.5 EXCEPTIONAL ITEMS (CONTINUED)

reviewing shop management structures, the centralisation of certain functions, and aligning regional offerings in order to deliver a more flexible, multi-skilled and productive model. This programme is now complete with a release of £0.6m (2020: £0.7m charge) recognised this year. The release in the current year reflects the release of redundancy provisions for the programme that were not utilised.

Included within operating expenses are £4.0m (2020: £2.5m) of restructuring and redundancy costs which are considered by the Partnership to be separate from our strategic programmes and part of the underlying business performance. These costs are therefore not separately reported as exceptional.

Shop impairments (Waitrose)

In 2021 a credit of £9.6m (2020: £13.3m credit) has been released as a result of improved shop performance, where shop impairment had previously been charged as exceptional.

Shop impairments (John Lewis)

In 2020 as a result of challenging trading conditions and management's reassessment of the allocation of online sales to cash generating units (CGUs), an exceptional net impairment charge of £110.3m was recognised. The Covid-19 pandemic this year has further impacted John Lewis shop trade and the implementation of lockdown and closure of John Lewis shops has led to a surge in online orders. In light of the significant shift in customer shopping behaviour from shops to online through the pandemic, and our expectation that a proportion of customers will adopt a predominantly online shopping pattern in the future, we have reassessed and reduced this element of our allocation of online sales to shops compared to previous years. As such the allocation of online sales to shop CGUs was further reviewed and together with the impact of a revised trading forecast, an impairment charge of £468.1m (2020: £110.3m), was recognised. By virtue of the size of the charge, and that the circumstances which have led to the charge arising are unique and unusual, the charge has been recognised as exceptional.

John Lewis supply chain

In 2017, a review of the John Lewis supply chain led to significant redundancy and restructuring costs which were recognised as exceptional. During the year to 25 January 2020, this restructure was finalised generating releases of £9.1m, principally in relation to a profit on property disposal of £7.6m. These releases were recognised as exceptional to be consistent with the original charges. There are no further charges or income expected in relation to the 2017 supply chain review.

Pay provision

In 2017 it was identified that there were rectification costs relating to the technical non-compliance with National Minimum Wage Regulations. The majority of these costs were settled in 2019, however the final payment arising from this investigation was made in May 2020 for £0.3m and has been recognised as exceptional to be consistent with the original charges. There are no future charges or income expected in relation to the 2017/18 investigation.

Legal settlement

The Partnership reached a settlement in relation to an ongoing legal dispute in 2020, receiving income of £10.0m. Due to the size and nature of this settlement, this income has been recognised as exceptional.

Pension closure

During the year to 25 January 2020, following the decision by Partnership Council on 15 May 2019 to close the Partnership's defined benefit section of the pension scheme to future accrual from April 2020, a past service credit of £249.0m was recognised for the reduction in the pension obligation. Following closure, members'

Notes to the consolidated financial statements (continued)

2.5 EXCEPTIONAL ITEMS (CONTINUED)

deferred pensions will now increase annually by inflation, which is generally lower than the previous pay growth assumption. Given the size and non-recurring nature of this credit, this income was recognised as exceptional.

2.6 (LOSS)/PROFIT BEFORE TAX

PURPOSE

Detailed below are items (charged)/credited to arrive at our (loss)/profit before tax as defined by IFRS and required to be reported under IFRS.

	2021 £m	2020 £m
Staff costs (note 2.8.2)	(1,806.1)	(1,603.8)
Depreciation ¹	(906.1)	(517.7)
Amortisation of intangible assets	(129.7)	(139.0)
Net profit on sale of property (including exceptional items)	11.9	42.7
Net loss on disposal of other plant and equipment and intangible assets	(1.9)	(4.2)
Net profit on lease exit ²	11.1	0.3
Inventory – cost of inventory recognised as an expense	(7,408.6)	(6,789.2)
Sub-lease income:		
– land and buildings	5.2	5.7

¹ Included within depreciation is an impairment charge of £525.7m (2020: £117.8m) of which £6.9m (2020: £7.5m) is in Waitrose, £508.6m (2020: £110.3m) is in John Lewis and £10.2m is against Partnership central assets (2020: £nil).

² Includes gain from the early termination of leases liabilities, less cost of the corresponding right-of-use asset and any termination payments or receipts.

Total auditor's remuneration is included within administrative expenses, and is payable to our auditor, KPMG LLP, as analysed below:

Auditor's remuneration	2021 £m	2020 £m
Audit and audit-related services:		
– Audit of the parent Company and consolidated financial statements	(0.4)	(0.4)
– Audit of the Company's subsidiaries	(1.0)	(0.6)
	(1.4)	(1.0)
Non-audit services:		
– Other assurance services	(0.2)	(0.1)
	(0.2)	(0.1)
Total fees	(1.6)	(1.1)

Notes to the consolidated financial statements (continued)

2.7 RECONCILIATION OF (LOSS)/PROFIT BEFORE TAX TO CASH GENERATED FROM OPERATIONS BEFORE PARTNERSHIP BONUS

PURPOSE

We have analysed how our (loss)/profit before tax reconciles to the cash generated from our operating activities before Partnership Bonus. Items added back to, or deducted from, (loss)/profit before tax are non-cash items that are adjusted to arrive at cash generated from operations before Partnership Bonus which is shown in the consolidated statement of cash flows.

	2021 £m	2020 £m
(Loss)/profit before tax	(517.2)	146.4
Amortisation and write-offs of intangible assets	135.6	151.7
Depreciation ¹	906.1	517.7
Share of (profit)/loss of joint venture (net of tax)	(0.9)	0.2
Net finance costs	157.6	161.6
Partnership Bonus	–	30.9
Fair value (gains)/losses on derivative financial instruments	(0.3)	0.3
Profit on disposal of property, plant and equipment and intangible assets	(21.0)	(37.1)
(Increase)/decrease in inventories	(30.2)	45.8
Decrease/(increase) in receivables	80.0	(31.4)
Increase/(decrease) in payables	51.4	(26.2)
Decrease in retirement benefit obligations	(8.2)	(238.4)
Increase/(decrease) in provisions	78.4	(8.1)
Cash generated from operations before Partnership Bonus	831.3	713.4

¹ Includes net impairment charges. See note 3.2.

2.8 PARTNERS

PURPOSE

The average number of Partners employed during the year, together with details of the area of the Partnership in which they work, and total employment-related costs are shown in the tables below. At the end of the year, our total number of Partners was 80,900 (2020: 80,800). This note also covers Partner benefits, including pay for senior Partners and the Partnership Board.

2.8.1 PARTNER NUMBERS

During the year the average number of Partners in the Partnership was as follows:

	2021	2020
John Lewis	23,900	27,200
Waitrose	54,300	51,300
Other	2,700	3,300
	80,900	81,800

Notes to the consolidated financial statements (continued)
2.8 PARTNERS (CONTINUED)

2.8.2 PARTNER PAY AND BENEFITS

Employment and related costs were as follows:

	2021 £m	2020 £m
Staff costs:		
Wages and salaries	(1,538.3)	(1,506.0)
Social security costs	(114.4)	(110.6)
Partnership Bonus	–	(27.5)
Employers' National Insurance on Partnership Bonus	–	(3.4)
Other pension (charge)/credit (note 6.1.2)	(143.3)	45.0
Long leave cost	(10.1)	(1.3)
Total before Partner discounts	(1,806.1)	(1,603.8)
Partner discounts (excluded from revenue)	(104.1)	(74.3)
	(1,910.2)	(1,678.1)

2.8.3 KEY MANAGEMENT COMPENSATION

	2021 £m	2020 £m
Salaries and short-term benefits	(5.5)	(11.6)
Post-employment benefits ¹	(0.7)	(2.2)
Termination payments ²	(1.8)	(4.4)
	(8.0)	(18.2)

¹ Includes cash supplements in lieu of future pension accrual.

² Includes contractual payments and compensation for loss of office.

Key management includes the Directors of the Company and other officers of the Partnership. Key management compensation includes salaries, Partnership Bonus, National Insurance costs, pension costs and the cost of other employment benefits, such as company cars, private medical insurance and termination payments where applicable. Costs of key management compensation are included within operating expenses and exceptional items as applicable.

Key management participate in the Partnership's long leave scheme, which is open to all Partners and provides up to six months' paid leave after 25 years' service. There is no proportional entitlement for shorter periods of service. It is not practical to allocate the cost of accruing entitlement to this benefit to individuals, and therefore no allowance has been made for this benefit in the amounts disclosed.

Notes to the consolidated financial statements (continued)

2.8 PARTNERS (CONTINUED)

2.8.4 DIRECTORS' EMOLUMENTS

Directors' emoluments have been summarised below. Further details of the remuneration of Directors is given in the parts of the Remuneration Committee Report noted as audited on pages 97 to 101.

	2021 £m	2020 £m
Aggregate emoluments	(2.1)	(5.4)

2.9 TAXATION

PURPOSE

Our tax charge for the year is shown below. This includes an explanation of how each item is calculated, a reconciliation of our effective tax rate to the UK standard tax rate, and an update on any tax rate changes. We have placed further explanatory boxes within the note to explain each table.

Our Tax Strategy aligns to the Principles of our Constitution and, as a responsible leading retailer, we recognise that paying taxes arising from our activities is an important part of how our business contributes to the societies in which we operate. The Tax Strategy adopted by the Partnership Board is available on the Partnership's website. In addition, our total tax contributions are shown on page 35.

ACCOUNTING POLICIES

Taxation: *Tax on the profit or loss for the year comprises current and deferred tax. Tax is recognised in the income statement except to the extent that it relates to items recognised directly in other comprehensive income/(expense), in which case it is recognised directly in other comprehensive income/(expense).*

Current tax is the expected tax payable or receivable on the taxable income or loss for the year, using tax rates enacted or substantively enacted at the balance sheet date, and any adjustments to tax payable in respect of previous years.

Deferred tax is accounted for using the balance sheet liability method in respect of temporary differences arising from differences between the tax bases of assets and liabilities and their carrying amounts in the financial statements.

Deferred tax arising from the initial recognition of an asset or liability in a transaction, other than a business combination, that at the time of the transaction affects neither accounting nor taxable profit or loss, is not recognised.

In principle, deferred tax liabilities are recognised for all taxable temporary differences and deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilised.

Deferred tax is calculated at the tax rates that are enacted or substantively enacted at the balance sheet date that are expected to apply to the period when the asset is realised or the liability is settled.

Notes to the consolidated financial statements (continued)

2.9 TAXATION (CONTINUED)

2.9.1 ANALYSIS OF TAX CHARGE FOR THE YEAR

PURPOSE

The components of our tax charge are below. The tax charge is made up of current and deferred tax. Current tax is the amount payable on the taxable income for the year; and any adjustments to tax payable in previous years. Current tax is charged through the consolidated income statement and consolidated statement of comprehensive income/(expense). Deferred tax is explained in note 2.9.3.

Tax credited/(charged) to the income statement	2021 £m	2020 £m
Current tax – current year	(5.4)	(17.9)
Current tax – adjustment in respect of prior years	6.1	(3.5)
Total current tax credit/(charge)	0.7	(21.4)
Deferred tax – current year	80.3	(24.1)
Deferred tax – rate change	(10.9)	4.5
Deferred tax – adjustment in respect of prior years	(4.9)	3.0
Total deferred tax credit/(charge)	64.5	(16.6)
	65.2	(38.0)

Tax credited to other comprehensive income	2021 £m	2020 £m
Current tax on pension scheme ¹	1.6	2.5
Total current tax credit	1.6	2.5
Deferred tax on pension scheme	53.6	30.4
Deferred tax on cash flow hedges	0.3	3.2
Total deferred tax credit	53.9	33.6
	55.5	36.1

¹ An additional deficit funding contribution of £7.5m has been paid by the Partnership during the year (2020: £12.8m) in relation to the defined benefit pension scheme, resulting in a tax credit of £1.6m (2020: £2.5m) to the statement of other comprehensive income/(expense) and a corresponding reduction in our current tax liability.

2.9.2 FACTORS AFFECTING TAX CHARGE FOR THE YEAR

PURPOSE

Taxable profit differs from profits as reported in the income statement because some items of income or expense may never be taxable or deductible.

The table below shows the reconciliation between the tax charge on profits at the standard UK tax rate and the actual tax charge recorded in the income statement ignoring the effects of temporary differences. The effective tax rate is the tax charge as a percentage of Partnership profit before tax.

The tax charge for the year is lower (2020: higher) than the standard corporation tax rate of 19.0% (2020: 19.0%). The differences are explained on the next page:

Notes to the consolidated financial statements (continued)

2.9 TAXATION (CONTINUED)

2.9.2 FACTORS AFFECTING TAX CHARGE FOR THE YEAR (CONTINUED)

	2021 £m	2020 £m
(Loss)/profit before tax	(517.2)	146.4
(Loss)/profit before tax multiplied by standard rate of corporation tax in the UK of 19.0% (2020: 19.0%)	98.3	(27.8)
Effects of:		
Changes in tax rate	(10.9)	4.5
Adjustment in respect of prior years	1.2	(0.5)
Depreciation on assets not qualifying for tax relief	(49.0)	(23.1)
Difference between accounting and tax base for land and buildings	29.1	11.6
Differences in overseas tax rates	–	0.4
Sundry disallowables	(3.5)	(3.1)
Total tax credit/(charge)	65.2	(38.0)
Effective tax rate (%)	12.6	26.0

2.9.3 DEFERRED TAX

PURPOSE

Deferred tax is the tax expected to be payable or recoverable in the future due to temporary differences that arise when the carrying value of assets and liabilities differ between accounting and tax treatments. Deferred tax assets represent the amounts of income taxes recoverable in the future in respect of these differences, while deferred tax liabilities represent the amounts of income taxes payable in the future in respect of these differences. Here we show the movements in deferred tax assets and liabilities during the year.

Deferred tax is calculated on temporary differences using a tax rate of 19%. The movement on the deferred tax account is shown below:

	2021 £m	2020 £m
Deferred tax		
Opening net liability	(20.2)	(36.2)
Adjustment on initial application of IFRS 16 ¹	–	(1.0)
Adjusted opening net liability	(20.2)	(37.2)
Credited/(charged) to income statement	64.5	(16.6)
Credited to other comprehensive income/(expense)	53.9	33.6
Closing net asset/(liability)	98.2	(20.2)

¹ The Partnership has initially applied IFRS 16 at 27 January 2019, using the modified retrospective approach. Under this approach, comparative information is not restated and the cumulative effect of applying IFRS 16 is recognised in retained earnings at the date of initial application which was 27 January 2019.

Notes to the consolidated financial statements (continued)

2.9 TAXATION (CONTINUED)

2.9.3 DEFERRED TAX (CONTINUED)

The movements in deferred tax assets and liabilities during the year are shown below.

	Accelerated tax depreciation £m	Revaluation of land and buildings £m	Rollover gains £m	Other £m	Total £m
Deferred tax liabilities					
At 26 January 2019	(91.6)	(8.0)	(38.3)	–	(137.9)
Adjustment on initial application of IFRS 16 ¹	–	–	–	(1.0)	(1.0)
At 27 January 2019	(91.6)	(8.0)	(38.3)	(1.0)	(138.9)
Credited/(charged) to income statement	12.0	(2.7)	1.2	–	10.5
At 25 January 2020	(79.6)	(10.7)	(37.1)	(1.0)	(128.4)
Credited/(charged) to income statement	20.4	4.1	(0.3)	–	24.2
At 30 January 2021	(59.2)	(6.6)	(37.4)	(1.0)	(104.2)

¹ The Partnership has initially applied IFRS 16 at 27 January 2019, which requires the recognition of Right-of-use assets for Lease contracts that were previously classified as operating leases. As a result the Partnership recognised a deferred tax liability of £1.0m related to Right-of-use assets from those lease contracts as at 27 January 2019. The Partnership has initially applied IFRS 16 at 27 January 2019, using the modified retrospective approach. Under this approach, comparative information is not restated and the cumulative effect of applying IFRS 16 is recognised in retained earnings at the date of initial application which was 27 January 2019.

	Tax losses £m	Capital gains tax on land and buildings £m	Pensions and provisions £m	Other £m	Total £m
Deferred tax assets					
At 26 January 2019	–	11.1	86.4	4.2	101.7
(Charged)/credited to income statement	–	(0.4)	(34.2)	7.5	(27.1)
Credited to other comprehensive income/(expense)	–	–	30.4	3.2	33.6
At 25 January 2020	–	10.7	82.6	14.9	108.2
Credited/(charged) to income statement	23.7	18.3	(2.4)	0.7	40.3
Credited to other comprehensive income/(expense)	–	–	53.6	0.3	53.9
At 30 January 2021	23.7	29.0	133.8	15.9	202.4

The deferred tax asset in relation to the defined benefit pension scheme is £104.9m (2020: £53.7m).

Deferred tax assets and liabilities are only offset where there is a legally enforceable right of offset and there is an intention to settle the balances net. Certain deferred tax assets and liabilities have been offset. The following is the analysis of the deferred tax balances (after offset):

	2021 £m	2020 £m
Deferred tax		
Deferred tax assets	103.4	0.2
Deferred tax liabilities	(5.2)	(20.4)
Deferred tax net	98.2	(20.2)

Notes to the consolidated financial statements (continued)

2.9 TAXATION (CONTINUED)

2.9.3 DEFERRED TAX (CONTINUED)

The recoverability of deferred tax assets is supported by the expected level of future profits in the countries concerned.

Deferred tax assets are recognised for tax losses carried forward to the extent that the realisation of the related tax benefit through future profits is probable. There are unrecognised deferred tax assets in respect of losses for the year ended 30 January 2021 relating to losses in John Lewis Hong Kong Limited of £0.9m (2020: £0.8m).

The deferred tax balance associated with the pension deficit has been adjusted to reflect the current tax benefit obtained in the financial year ended 30 January 2010, following the contribution of the limited partnership interest in JLP Scottish Limited Partnership to the pension scheme (see note 6.1). The deferred tax assets and liabilities are recoverable after more than one year.

As a result of exemptions on dividends from subsidiaries and capital gains on disposal there are no significant taxable temporary differences associated with investments in subsidiaries and interests in joint arrangements.

2.9.4 FACTORS AFFECTING TAX CHARGES IN CURRENT AND FUTURE YEARS

PURPOSE

Here we explain any changes to the current or future tax rates that have been announced or substantively enacted.

The Government announced in the spring Budget on 3 March 2021 that the rate of Corporation Tax will increase from April 2023 to 25% for companies with profits over £250,000. As at 30 January 2021 the legislation had not yet been substantively enacted and therefore the tax rate for the purposes of determining the deferred tax recognition rate for assets and liabilities expected to reverse in periods after 1 April 2023 was 19%. The impact of the change is therefore not recognised in these financial statements but would have increased the net deferred tax asset by approximately £32.7m if it had been enacted before 30 January 2021. The impact will be reflected in the financial statements for the year ending 29 January 2022.

Notes to the consolidated financial statements (continued)

3 OPERATING ASSETS AND LIABILITIES

IN THIS SECTION

This section shows the assets used in generating the Partnership's performance and related future commitments. This includes intangible assets, property, plant and equipment, right-of-use assets, investment in and loans to our joint venture, as well as commitments for future expenditure which will be used to help generate our performance in future years. Assets held for sale are included within this section as they relate to current assets which have previously been used in delivering our results.

3.1 INTANGIBLE ASSETS

PURPOSE

Our balance sheet contains non-physical assets in relation to computer software which are used to support our business and the generation of our profits. This note shows the cost of the assets, which is the amount we initially paid for them, and details any additions and disposals during the year. Additionally, the note shows amortisation, which is an expense in the income statement to reflect the usage of these assets. Amortisation is calculated by estimating how many years we expect to use the assets, which is also known as the useful economic life (UEL). The amortisation charge reduces the initial value of the assets over time spread evenly over their useful economic lives. The value after deducting accumulated amortisation is known as the amortised value.

Each year we review the value of our assets to ensure that their expected future value in use (VIU) in the business has not fallen below their amortised value. This might occur where there has been a system replacement in the year. If an asset's expected value in use falls below its amortised value, this is reflected through an additional impairment expense, which reduces profits.

ACCOUNTING POLICIES

Intangible assets: *Intangible assets, comprising both purchased and internally developed computer software, are carried at cost less accumulated amortisation and impairments. The cost of internally developed software, including all directly attributable costs necessary to create, produce and prepare the software for use, is capitalised where the development meets the criteria for capitalisation required by IAS 38. This may include capitalised borrowing costs. Internally developed software assets that are not yet in use are reviewed at each reporting date to ensure that the development still meets the criteria for capitalisation, and is not expected to become impaired or abortive.*

Amortisation: *Once available for use, the purchased or internally developed software is amortised on a straight-line basis over its useful economic life, which is deemed to be between three and ten years. The assets' useful economic lives are reviewed and adjusted if appropriate at each balance sheet date.*

Impairment: *Assets are reviewed for impairment at least annually or whenever events or circumstances indicate that the amortised value may not be recoverable. An impairment loss is recognised for the amount by which the asset's amortised cost exceeds its recoverable amount, the latter being the higher of the asset's fair value less costs to dispose and value in use. The reversal of an impairment loss is recognised immediately as a credit to the income statement.*

KEY JUDGEMENTS

Value of intangible work in progress: *The Partnership has incurred a significant amount of development expenditure relating to intangible assets, particularly IT systems and software. These development costs are recorded within Work in Progress (WIP) on the balance sheet until the assets that they relate to are available for use. If management believe that a development project is no longer likely to result in the creation of a useful intangible asset, the related development expenditure should be reclassified from WIP and expensed as an abortive cost through the income statement. Management's judgement over the likely outcome of these development projects can therefore affect the level of abortive costs in any one year and the amount capitalised as intangible assets in the future.*

Management's review has concluded that the intangible WIP balances presented at the reporting date are expected to result in intangible assets as defined by IAS 38.

CRITICAL ACCOUNTING ESTIMATES

Amortisation: Amortisation is recorded to write down intangible assets to a residual value of nil over their useful economic lives (UEs). Management must therefore estimate the appropriate UEs to apply to each class of intangible asset. Changes in the estimated UEs would alter the amount of amortisation charged each year, which could materially impact the carrying value of the assets in question over the long term. UEs are therefore reviewed on an annual basis to ensure that they are in line with policy and that those policies remain appropriate.

Impairment: As part of their impairment reviews, management must assess whether intangible assets will continue to deliver economic benefits in the future. Given the nature of these assets and the current pace of change within retail, previous estimates of economic benefit may be reduced if assets become obsolete or are likely to be superseded prior to the end of their UEL. Where a significant reduction in estimated future economic benefits occurs, it could result in a material impairment charge. Although the risk of a material impairment is reduced by capping intangible UEs at a maximum of 10 years and not applying residual values, intangibles are assessed at least annually for indications of impairment, which requires a degree of subjectivity on the part of management.

Intangible assets	Computer software			
	Purchased £m	Internally developed £m	Work in progress £m	Total £m
Cost				
At 26 January 2019	251.7	677.4	137.3	1,066.4
Additions ¹	–	–	137.6	137.6
Transfers	15.5	125.7	(141.2)	–
Disposals and write-offs	(21.8)	(29.7)	(12.7)	(64.2)
At 25 January 2020	245.4	773.4	121.0	1,139.8
Additions ¹	–	–	108.8	108.8
Transfers to assets held for sale	–	(0.1)	–	(0.1)
Transfers	20.3	96.1	(116.4)	–
Disposals and write-offs	(43.0)	(54.1)	(5.9)	(103.0)
At 30 January 2021	222.7	815.3	107.5	1,145.5
Accumulated amortisation				
At 26 January 2019	(177.2)	(377.1)	–	(554.3)
Charge for the year	(37.2)	(101.8)	–	(139.0)
Disposals and write-offs	20.1	28.9	–	49.0
At 25 January 2020	(194.3)	(450.0)	–	(644.3)
Charge for the year	(32.6)	(97.1)	–	(129.7)
Transfers to assets held for sale	–	0.1	–	0.1
Disposals and write-offs	44.4	51.9	–	96.3
At 30 January 2021	(182.5)	(495.1)	–	(677.6)
Net book value at January 2019	74.5	300.3	137.3	512.1
Net book value at January 2020	51.1	323.4	121.0	495.5
Net book value at January 2021	40.2	320.2	107.5	467.9

¹ For the year ended 30 January 2021, additions for the year include the non-cash capital expenditure accrual on intangible assets of £1.1m (2020: £1.9m).

Intangible assets principally relate to customer and distribution projects with useful economic lives of up to ten years.

There are four individually significant assets within the total carrying amount of intangible assets as at 30 January 2021: two are customer projects (£141.3m, 2020: £134.0m) and two relate to distribution projects (£130.2m, 2020: £127.2m). These assets have useful economic lives ranging from three to ten years.

During the year to 30 January 2021, computer systems valued at £116.4m (2020: £141.2m) were brought into use. This covered a range of selling, support, supply chain, administration and information technology infrastructure applications, with useful economic lives ranging from three to ten years.

Amortisation of intangible assets is charged within operating expenses.

3.2 PROPERTY, PLANT AND EQUIPMENT, AND RIGHT-OF-USE ASSETS

PURPOSE

Our balance sheet contains significant property, plant and equipment, and right-of-use assets, primarily comprising assets relating to shops, distribution centres, offices and vehicles.

This note shows the cost of the assets, which is the amount we initially paid for them, or deemed cost if the assets were purchased before 31 January 2004 when the Partnership transitioned to report under IFRS. For right-of-use assets, the cost is equivalent to the present value of the future lease payments relating to the leased assets. This note also details any additions and disposals during the year, and shows depreciation, which is an expense in the income statement to reflect the usage of these assets. Depreciation is calculated by estimating how many years we expect to use the assets; this is also known as the useful economic life (UEL). The depreciation charge reduces the initial value of the assets over time and spread evenly over their useful economic lives. The value after deducting accumulated depreciation is known as the net book value.

Each year we review the recoverable amounts of our assets to ensure that the value in use or fair value less cost to dispose has not fallen below their net book value. This might occur where there is a decline in forecast performance. If an asset value falls below its net book value, this is reflected through an impairment expense, which reduces profit.

ACCOUNTING POLICIES

Property, plant and equipment: *The cost of property, plant and equipment includes the purchase price and directly attributable costs of bringing the asset into working condition ready for its intended use. This may include capitalised borrowing costs.*

The Partnership's freehold and long leasehold properties were last revalued to fair value by the Directors, after consultation with CB Richard Ellis, Chartered Surveyors, as at 31 January 2004. These values have been incorporated as deemed cost, subject to the requirement to test for impairment in accordance with IAS 36. The Partnership has decided not to adopt a policy of revaluation since 31 January 2004.

Right-of-use assets: *Right-of-use assets are initially measured at cost, which is an amount equal to the corresponding lease liabilities (present value of future lease payments) adjusted for any lease payments made at or before the commencement date, less any lease incentives received. See note 5.6 for the lease liabilities accounting policy.*

Depreciation: *No depreciation is charged on freehold land or assets in the course of construction. Depreciation is calculated for all other assets to write off the cost or valuation, less residual value, on a straight-line basis over the following expected useful economic lives:*

Freehold and long leasehold buildings – 25-50 years

Other leaseholds – over the shorter of the useful economic life or the remaining period of the lease
Building fixtures – 10-40 years
Fixtures, fittings and equipment (including vehicles and information technology equipment) – 3-10 years

Property residual values are assessed as the price in current terms that a property would be expected to realise, if the buildings were at the end of their useful economic life. The assets' residual values and useful lives are reviewed and adjusted if appropriate at each balance sheet date.

For right-of-use assets depreciation is calculated on a straight-line basis over the expected useful economic life of the lease. Judgement is applied to estimate the lease UEL. This is done on an individual lease basis and considers the lease terms and the enforceable period of the lease.

Impairment: *Assets are reviewed for impairment at least annually or whenever events or circumstances indicate that the net book value may not be recoverable. Impairment testing is performed on cash generating units (CGUs) which are individual shops (including an allocation of online), this being the lowest level of separately identifiable cash flows. An impairment loss is recognised for the amount by which the asset's net book value exceeds its recoverable amount, the latter being the higher of the asset's fair value less costs to dispose and value in use. Value in use calculations are performed using cash flow projections, discounted at a pre-tax rate, which reflects the asset specific risks and the time value of money.*

When an impairment loss subsequently reverses, the carrying amount of the CGU is increased to the revised estimate of the recoverable amount, but ensuring the increased carrying amount does not exceed the carrying amount that would have been determined if no impairment loss had been recognised for the CGU in prior years. A reversal of an impairment loss is recognised as a credit to the income statement when recovery of performance is considered reasonably certain.

KEY JUDGEMENTS

Application of residual values: *The application of residual values to shell assets on freehold and long leasehold properties is a key accounting judgement that impacts the depreciation charge recognised in respect of these assets. Management has assessed that it is appropriate to apply residual values to these assets as the buildings will retain significant value both during and at the end of their useful economic lives. This residual value could be realised through a sale of the property or a subletting arrangement. Management has therefore concluded that the application of residual values is consistent with the definition set out in IAS 16.*

CRITICAL ACCOUNTING ESTIMATES

Depreciation: *Depreciation is recorded to write down property, plant and equipment and right-of-use assets to their residual values over their useful economic lives (UELs). Management must therefore estimate the appropriate UELs to apply to each class of asset as set out in the accounting policy above. Changes in the estimated UELs would alter the amount of depreciation charged each year, which could materially impact the carrying value of the assets in question over the long term. UELs are therefore reviewed on an annual basis to ensure that they are in line with policy and that those policies remain appropriate.*

Impairment: *In line with the Partnership's accounting policy, management must assess the value in use of each CGU when testing for impairment. This requires estimation of the present value of future cash flows expected to arise from the continuing operation of the CGU. These estimates require assumptions over future sales performance; future costs; and long-term growth rates, as well as the application of an appropriate discount rate. As an omni-channel retailer, the presence of a physical shop plays an important role in generating and facilitating online sales. Judgement is required in relation to the proportion of online sales and costs allocated to the future cash flows of John Lewis shops to reflect the role that the shops play. The allocation is based on customer sales data (which identifies omni-channel customers), online shopping behaviour and physical touchpoints with a shop, including Click & Collect. In light of changing customer behaviours, with more customers now shopping purely online, we have reassessed our assumptions around the allocation of online sales to shops to better reflect this trend. The proportion of online sales allocated to shops has therefore been reduced this year. Were there to be significant changes in these estimations, the amount charged as impairment during the year could be materially impacted, or impairment charges recognised in previous years may be reversed.*

Property, plant and equipment	Land and buildings £m	Fixtures, fittings and equipment £m	Assets in course of construction £m	Total £m
Cost				
At 26 January 2019	4,626.2	1,948.4	53.0	6,627.6
Adjustment on initial application of IFRS 16 ¹	(23.1)	–	–	(23.1)
At 27 January 2019	4,603.1	1,948.4	53.0	6,604.5
Additions ²	–	–	189.8	189.8
Transfers	65.1	94.4	(159.5)	–
Disposals and write-offs	(118.2)	(84.3)	(1.7)	(204.2)
Transfers from assets held for sale ³	16.9	–	–	16.9
At 25 January 2020	4,566.9	1,958.5	81.6	6,607.0
Additions ²	16.3	–	119.7	136.0
Transfers	49.2	57.8	(107.0)	–
Disposals and write-offs	(188.6)	(119.5)	(0.2)	(308.3)
Transfers to assets held for sale	(20.2)	(6.1)	–	(26.3)
At 30 January 2021	4,423.6	1,890.7	94.1	6,408.4
Accumulated depreciation				
At 26 January 2019	(1,384.1)	(1,433.8)	–	(2,817.9)
Adjustment on initial application of IFRS 16 ¹	13.1	–	–	13.1
At 27 January 2019	(1,371.0)	(1,433.8)	–	(2,804.8)
Charge for the year ⁴	(210.2)	(154.4)	–	(364.6)
Disposals and write-offs	24.6	82.2	–	106.8
Transfers from assets held for sale ³	(9.0)	–	–	(9.0)
At 25 January 2020	(1,565.6)	(1,506.0)	–	(3,071.6)
Charge for the year ⁴	(405.2)	(154.1)	–	(559.3)
Disposals and write-offs	74.8	117.9	–	192.7
Transfers to assets held for sale	7.6	5.7	–	13.3
At 30 January 2021	(1,888.4)	(1,536.5)	–	(3,424.9)
Net book value at January 2019	3,242.1	514.6	53.0	3,809.7
Net book value at January 2020	3,001.3	452.5	81.6	3,535.4
Net book value at January 2021	2,535.2	354.2	94.1	2,983.5

¹ The Partnership has initially applied IFRS 16 at 27 January 2019 which requires the recognition of right-of-use assets in place of lease assets. As a result at 27 January 2019 land and building assets with a net book value £10.0m have been reallocated and recognised as right-of-use assets. The Partnership has initially applied IFRS 16 at 27 January 2019, using the modified retrospective approach. Under this approach, comparative information is not restated and the cumulative effect of applying IFRS 16 is recognised in retained earnings at the date of initial application which was 27 January 2019.

² For the year ended 30 January 2021, additions for the year include the non-cash capital expenditure accrual on property, plant and equipment of £24.4m (2020: £26.6m).

- 3 Transfers from assets held for sale in the year ended 25 January 2020 includes the reclassification of a property with a net book value of £9.4m back to property, plant and equipment due to changes in circumstances. This is offset by properties with a total carrying value of £1.5m which have been recorded as held for sale at year-end at 25 January 2020.
- 4 For the year ended 30 January 2021 this includes an impairment charge of £274.0m to land and buildings (2020: £85.3m) and £41.8m in fixtures and fittings (2020: £14.1).

	Land and buildings £m	Fixtures, fittings and equipment £m	Total £m
Right-of-use assets			
Cost			
Recognition of right-of-use assets on initial application of IFRS 16 at 27 January 2019 ¹	1,938.1	4.9	1,943.0
Additions	80.5	–	80.5
Disposals and write-offs	(17.2)	–	(17.2)
At 25 January 2020	2,001.4	4.9	2,006.3
Additions	91.1	43.5	134.6
Disposals and write-offs	(118.5)	(0.2)	(118.7)
At 30 January 2021	1,974.0	48.2	2,022.2
Accumulated depreciation			
Recognition of right-of-use assets on initial application of IFRS 16 at 27 January 2019 ¹	–	–	–
Charge for the year ²	(152.1)	(1.0)	(153.1)
Disposals and write-offs	1.7	–	1.7
At 25 January 2020	(150.4)	(1.0)	(151.4)
Charge for the year ²	(343.8)	(3.0)	(346.8)
Disposals and write-offs	16.1	0.1	16.2
At 30 January 2021	(478.1)	(3.9)	(482.0)
Net book value on initial application of IFRS 16 at 27 January 2019 ¹	1,938.1	4.9	1,943.0
Net book value at January 2020	1,851.0	3.9	1,854.9
Net book value at January 2021	1,495.9	44.3	1,540.2

¹ The Partnership has initially applied IFRS 16 at 27 January 2019, which requires the recognition of right-of-use assets for assets under lease contracts. As a result the Partnership recognised £1,943.0m of right-of-use assets from those lease contracts as at 27 January 2019. The Partnership has initially applied IFRS 16 at 27 January 2019, using the modified retrospective approach. Under this approach, comparative information is not restated and the cumulative effect of applying IFRS 16 is recognised in retained earnings at the date of initial application which was 27 January 2019.

² For the year ended 30 January 2021 this includes an impairment charge of £209.9m (2020: £18.4m).

Notes to the consolidated financial statements (continued)

3.2 PROPERTY, PLANT AND EQUIPMENT, AND RIGHT-OF-USE ASSETS (CONTINUED)

In accordance with IAS 36, the Partnership reviews its property, plant and equipment for impairment at least annually or whenever events or circumstances indicate that the value on the balance sheet may not be recoverable.

The impairment review compares the recoverable amount for each CGU to the carrying value on the balance sheet and includes right-of-use assets. The key assumptions used in the impairment review are the discount rate, long-term growth rate, expected sales performance and costs, the allocation of online sales to shops in the determination of the John Lewis shop CGU and market valuations considered in fair value less costs of disposal calculations.

The value in use calculation is based on five-year cash flow projections using the latest budget and forecast data. In John Lewis different growth expectations are applied to online and shop sales. Any changes in sales performance and costs are based on past experience and expectations of future changes in the market. The forecasts are then extrapolated beyond the five-year period using a long-term growth rate of 2% for both Waitrose and John Lewis. A pre-tax discount rate of 7% for Waitrose (2020: 7%) and 10% for John Lewis (2020: 7%) has been used, calculated by reference to the Partnership's Weighted Average Cost of Capital (WACC) which now includes Partnership lease debt under IFRS 16.

The impact of the Covid-19 pandemic has had differing impacts on the Partnership's two brands and has most significantly adversely impacted the trade in John Lewis shops and online. The Covid-19 pandemic has resulted in UK lockdowns and social distancing measures which have triggered an acceleration of change in customer shopping behaviour. The Partnership has witnessed a move to online for general merchandise and grocery over a number of years and the pace of transition has accelerated significantly during the past year. We anticipate that when 'normal' returns, the proportion of sales arising from online and shop channels will be reweighted to favour online and a significant proportion of John Lewis customers who have previously shopped across both channels will retain a predominantly online shopping pattern with reduced visits to physical shops. This has led to a revision of the Partnership's financial targets and a reassessment of how we allocate online sales to CGUs for the purpose of impairment testing of John Lewis shops.

Following the impairment review, the Partnership recognised a net impairment charge arising from shop performance and trading conditions as an exceptional item of £458.5m across property, plant and equipment and right-of-use assets; £468.1m charge in John Lewis and £9.6m credit in Waitrose. Additionally, £52.7m was recognised in relation to our Physical Estate programme and represents the impairment of assets in our shop closure programme, £40.5m in John Lewis, £2.0m in Waitrose, and the exit of a head office location. A further £14.5m relating to Waitrose was charged but not recognised as exceptional. The total impairment charge for the year is £525.7m.

John Lewis shop impairment

The UK Government's implementation of trade restrictions in response to the Covid-19 pandemic and the change in customer buying patterns both represent impairment triggers. As such all John Lewis shops have been tested for impairment.

The impairment review performed considers the VIU of a CGU compared to the carrying value in the first instance and subsequently the fair value less cost to dispose if the VIU is lower than the CGU carrying value.

Notes to the consolidated financial statements (continued)

3.2 PROPERTY, PLANT AND EQUIPMENT, AND RIGHT-OF-USE ASSETS (CONTINUED)

Cash forecasts

The calculations use a pre-tax cash flow based on a five-year plan approved by the Partnership Board. The forecasts are then extrapolated beyond the five-year period using a long-term growth rate of 2%. The key assumptions in this plan are the recovery of John Lewis shop sales from the impact of Covid-19 restrictions, year on year sales growth and margin assumptions. The plan differentiates between online and shop sales growth, which is relevant to our shop CGUs which continue to include an allocation of online sales.

The John Lewis shop impairment is most sensitive to changes in sales and margin forecasts and the allocation of online sales, and therefore sensitivity analysis has focused on these aspects of the impairment evaluation. Modelling a scenario of slower sales and margin recovery for John Lewis shops by reducing both the sales and margin growth assumptions in year 1 by 100bps, results in an additional impairment of £89m.

Online allocation

Judgement is required as to whether online sales (and associated costs) should be attributed to John Lewis shops for the purposes of impairment testing. Management believes that a proportion of online sales, made by customers who shop both online and in store (“omni-channel”), should be attributed to John Lewis shops. This reflects the role our shops play in providing customers with an opportunity to browse, touch, and feel our product range before purchasing online. The merchandising of the product offer in our physical estate provides inspiration for our customers who may then choose to purchase online (in particular for larger items and more considered purchases in our Home offer). For these reasons, John Lewis allocates online sales to shops based on Click & Collect online sales, and a further proportion of online sales of omni-channel customers to reflect the role the shop plays in facilitating online purchases. This further allocation is based on evidence of a customer’s physical touchpoint with a shop through previous purchasing behaviour. In light of the significant shift in customer shopping behaviour from shops to online through the pandemic, and our expectation that a proportion of customers will adopt a predominantly online shopping pattern in the future, we have reassessed and reduced this element of our allocation of online sales to shops compared to previous years. The allocation of the sales and the weighting of the drivers (i.e. Click & Collect versus greater allocation to reflect the role the shop plays in facilitating online sales) varies by shop.

Given the pace of change in customer behaviour and the transition to online purchasing, we have run sensitivities to reflect what a further shift in customer shopping behaviour and therefore online allocation would generate in terms of impairment. If an additional 10% of online sales were allocated to shop CGUs this reduces the impairment charge by £74m, whereas a 10% reduction from the current assumption of online allocation would result in an increased impairment charge of £118m. If the online allocation assumptions were reduced such that only online sales serviced through in store Click & Collect were allocated to CGUs, this would further increase the impairment provision by £284m.

Market valuations

External market valuations are regularly obtained by the Partnership and used within the consideration of fair value less cost to dispose. In light of the Covid-19 pandemic and in consideration of the available market for department store properties, these valuations have been reassessed at the year-end and where applicable revised down.

Discount rate

The discount rate used in the calculation of cash flows is derived from the John Lewis Weighted Average Cost of Capital (WACC). This has increased since the year-end. A number of factors have contributed to this increase as the markets respond to the Covid-19 pandemic; the Partnership’s gross debt has increased and the

Notes to the consolidated financial statements (continued)

3.2 PROPERTY, PLANT AND EQUIPMENT, AND RIGHT-OF-USE ASSETS (CONTINUED)

average comparative equity betas used in our calculations have risen to reflect the higher level of risk in the market for general merchandise. A reduction in the discount rate assumption of 100 bps would decrease the John Lewis impairment charge by £13m, and an increase of 100 bps would increase the impairment charge by £16m.

Waitrose shop impairment

The impairment calculations for Waitrose shops use a pre-tax cash flow based on a five-year plan approved by the Partnership Board. The forecasts are then extrapolated beyond the five-year period using a long-term growth rate of 2%. The key assumptions in this plan concern the stabilisation of sales and margin following the disruption of lockdown, Waitrose online sales are allocated directly to the shop that the online order is picked and fulfilled from. Online sales are therefore included in the Waitrose CGUs and as the sales are directly attributable to shop activity, this is not considered a key judgement.

The increase in the Waitrose impairment provision is a net £6.9m. This represents additional impairment for a small number of shops that have seen specific performance deterioration, reversals on other shops which have seen improved performance and which has been judged to be sustainable, and utilisation of the provision following the exit of previously impaired shops.

The discount rate used in the calculation of cash flows is derived from the Waitrose Weighted Average Cost of Capital (WACC). This has reduced from the 19/20 year-end, primarily driven by the decrease in the Partnership's underlying bond rates.

The Waitrose impairment estimation is most sensitive to changes in the sales growth and margin assumptions. The below sensitivities reflect realistic and reasonable variations to the forecast currently used by the Partnership:

- Reducing the sales growth rate assumption by 200 bps in year 1 and flowing through into years 2-5 would result in an additional impairment charge of £2.2m;
- Reducing the long-term growth rate to nil would result in an additional impairment charge of £3.1m;
- Amending the forecast gross margin stabilisation by reducing the gross margin assumption by 50 bps in years 1 and 2 would result in an additional impairment charge of £7.1m; and
- Increasing the discount rate by 100 bps would result in an additional impairment charge of £1.3m.

3.3 INVESTMENT IN AND LOANS TO JOINT VENTURE

PURPOSE

Our balance sheet includes an investment in a joint venture, Clicklink Logistics Limited, which is used to support our business and the generation of our profits.

This note shows the cost of the investment in, and loans made to, the joint venture. It also includes details of the share of profit/loss and any dividends received from the joint venture during the year.

ACCOUNTING POLICIES

Joint arrangements: *The Partnership applies IFRS 11 to all joint arrangements. Under IFRS 11 investments in joint arrangements are classified as either joint operations or joint ventures depending on the contractual rights and obligations of each investor. The Partnership has assessed the nature of its joint arrangements and determined them to be joint ventures.*

Interests in joint ventures are accounted for using the equity method after initially being recognised at cost in the consolidated balance sheet.

The consolidated financial statements include the Partnership's share of the profit or loss and other comprehensive income of the equity accounted investees, from the date that joint control commences until the date that joint control ceases.

John Lewis plc and Clipper Logistics plc are both investors in Clicklink Logistics Limited. Each party owns 50.0% of the equity of Clicklink Logistics Limited and decisions regarding Clicklink Logistics Limited require the unanimous consent of both parties.

Joint venture	Investment £m	Loan £m	Total £m
Cost			
At 26 January 2019	2.1	2.0	4.1
Additions	–	–	–
At 25 January 2020	2.1	2.0	4.1
Additions	–	–	–
At 30 January 2021	2.1	2.0	4.1
Share of profit/(loss)			
At 26 January 2019	(1.4)	–	(1.4)
Share of loss	(0.2)	–	(0.2)
At 25 January 2020	(1.6)	–	(1.6)
Share of profit	0.9	–	0.9
At 30 January 2021	(0.7)	–	(0.7)
At 26 January 2019	0.7	2.0	2.7
At 25 January 2020	0.5	2.0	2.5
At 30 January 2021	1.4	2.0	3.4

3.4 ASSETS HELD FOR SALE

PURPOSE

Assets held for sale are assets previously classified as non-current which are expected to be sold rather than held for continuing use in the Partnership. These have principally arisen as part of the Partnership's review of its physical estate. Assets held for sale have not been sold at the balance sheet date but are being actively marketed for sale, with a high probability of completion within 12 months and are therefore classified as current assets.

At 30 January 2021, one property asset in Waitrose was recorded as held for sale with a total carrying value of £10.6m, and has been sold since the year-end. At 25 January 2020, three property assets in Waitrose were recorded as held for sale with a total carrying value of £1.5m.

Notes to the consolidated financial statements (continued)

3.5 COMMITMENTS AND CONTINGENCIES

PURPOSE

A commitment represents a contractual obligation to make a payment in the future. We have commitments for capital expenditure. Contingent liabilities are potential future cash outflows where the likelihood of payment is more than remote but is not considered probable or cannot be measured reliably.

In line with accounting standards, commitments and contingencies are not included within the balance sheet, but are detailed in the note below. The amounts below represent the maximum amounts that we are obliged to pay.

At 30 January 2021, contracts had been entered into for future capital expenditure of £35.5m (2020: £20.2m) of which £30.5m (2020: £14.3m) relates to property, plant and equipment and £5.0m (2020: £5.9m) relates to intangible assets.

4 WORKING CAPITAL AND PROVISIONS

IN THIS SECTION

Working capital represents the assets and liabilities that the Partnership generates through its day-to-day trading activities. This section shows the elements of working capital, including inventories, trade and other receivables and trade and other payables. Provisions are also included in this section as they represent operating liabilities.

4.1 INVENTORIES

PURPOSE

Our inventory is the stock available for sale or for manufacturing our products. This note sets out the make-up of our inventories between raw materials, work in progress and finished goods and goods for resale. Our raw materials and work in progress are primarily related to Herbert Parkinson and Leckford Farm. Slow-moving and obsolete inventory is assessed each reporting period and an appropriate provision is made against the inventory balance. The value of inventory is shown net of provisions. Once the inventory is sold, it is charged to cost of sales in the consolidated income statement.

ACCOUNTING POLICIES

Inventory valuation: *Inventory is stated at the lower of cost, which is computed on the basis of average unit cost, and net realisable value. Inventory excludes merchandise purchased by the Partnership on a sale or return basis, where the Partnership does not have the risks and rewards of ownership. Slow-moving and obsolete inventory is assessed for impairment at each reporting period based on past experience and an appropriate provision is made. Inventory also includes a 'right to return goods' asset, which represents the value of inventory expected to be returned as a result of customers exercising their rights under the Partnership's returns policy. The expected level of returns is based on past experience.*

Inventory	2021 £m	2020 £m
Raw materials	3.2	3.2
Work in progress	0.2	0.3
Finished goods and goods for resale	640.5	609.4
	643.9	612.9

Notes to the consolidated financial statements (continued)

4.1 INVENTORIES (CONTINUED)

Provisions against inventories of £34.2m were charged (2020: £22.8m charged) to cost of sales.

Finished goods and goods for resale include a 'right to return goods' asset of £19.0m (2020: £16.9m). This relates to the Partnership's expected returns inventory based on previous rates of return.

4.2 TRADE AND OTHER RECEIVABLES

PURPOSE

Our receivables are amounts owed to the Partnership. This note provides a split of receivables into trade receivables, other receivables and prepayments and accrued income.

Trade receivables are amounts owed to us from customers and from suppliers if we are owed rebates. Other receivables include interest receivable from third parties and amounts due from our Partners in respect of the Partnership's car finance scheme. Prepayments are payments made in advance of the delivery of goods or rendering of services. Accrued income is income earned by the Partnership for providing a product or service which has not yet been invoiced.

Other receivables and prepayments are split into current and non-current to show those amounts due within one year and those which will be recovered over a longer period. Trade receivables are shown net of an allowance for debts which we do not consider to be recoverable.

ACCOUNTING POLICIES

Trade receivables: Trade receivables are initially recognised at fair value and subsequently measured at amortised cost less allowances for expected credit losses, using the simplified approach under IFRS 9. Such allowances are based on an individual assessment of each receivable, which is informed by past experience, and are recognised at amounts equal to the losses expected to result from all possible default events over the expected life of the financial asset. The Partnership also performs analysis on a case-by-case basis for particular trade receivables with irregular payment patterns or history.

Supplier income (shown as part of accrued income): The price that the Partnership pays suppliers for goods is determined through negotiations with suppliers regarding both the list price and a variety of rebates and discounts. The principal categories of rebate income are in the form of volume and marketing rebates. Supplier income is broadly split evenly between the two categories as follows:

Volume rebates: Volume rebates are earned based on sales or purchase triggers set over specific periods, such as the number of units sold to customers or purchased from the supplier. Volume rebates are recognised over the period set out in the supplier agreement.

Marketing rebates: Marketing rebates include promotions, mark downs or marketing support provided by suppliers. Marketing rebates are agreed with suppliers for specific periods and products.

Rebate income (shown as part of trade receivables) is recognised when the Partnership has contractual entitlement to the income, it can be estimated reliably and it is probable that it will be received.

Rebate income recognised is recorded against cost of sales and inventory, which is adjusted to reflect the lower purchase cost for the goods on which a rebate has been earned. Depending on the agreement with suppliers, rebates invoiced are either received in cash from the supplier or netted off against payments made to suppliers.

For promotions which are confirmed after the balance sheet date, the Partnership is sometimes required to estimate the amounts due from suppliers at the year-end. Estimates of supplier income are accrued within accrued income, and are based on a review of the supplier agreements in place and of relevant sales and purchase data.

The majority of rebates are confirmed before the year-end, therefore the level of estimate and judgement required in determining the year-end receivable is limited.

Trade and other receivables	2021 £m	2020 £m
Current:		
Trade receivables	48.2	85.3
Other receivables	40.0	41.3
Prepayments	54.3	88.7
Accrued income	37.2	45.6
	179.7	260.9
Non-current:		
Other receivables	15.1	16.0
Prepayments	2.9	0.5
	18.0	16.5

Trade receivables are non-interest bearing and generally on credit terms of less than 90 days. Concentrations of credit risk are considered to be very limited. The carrying amount of trade and other receivables approximates to fair value and is denominated in Sterling. Within trade receivables is supplier income which has been invoiced where there is no legal right to offset. Included in trade payables are invoices for supplier income where there is a right to offset and the Partnership intends to offset against amounts owed to suppliers (see note 4.3).

Within accrued income, there is £14.7m (2020: 13.4m) in relation to supplier income which has not yet been invoiced. Additionally, accrued income includes £12.1m (2020: 21.8m) in relation to other operating income items (see note 2.3) which has not been billed at the reporting date. The unbilled amounts of other operating income is made up of items that are not individually material for further disclosures and had no significant changes during the period.

The Partnership recognises loss allowances for expected credit losses within operating expenses in the income statement. As at 30 January 2021, trade and other receivables of £2.1m (2020: £1.5m) were partially or fully impaired. As at 30 January 2021, trade and other receivables of £38.9m (2020: £35.2m) were past due but not impaired. The ageing analysis of the past due amounts is as follows:

Ageing analysis	2021 £m	2020 £m
Up to 3 months past due	37.1	33.2
3 to 12 months past due	1.5	1.3
Over 12 months past due	0.3	0.7
	38.9	35.2

Notes to the consolidated financial statements (continued)

4.3 TRADE AND OTHER PAYABLES

PURPOSE

Trade and other payables include amounts owed by the Partnership. We owe payments to suppliers for goods or services that have been invoiced or accrued, and to HMRC in the form of taxes and social security. Amounts are payable to our Partners, through salaries and our annual profit share, the Partnership Bonus. Deferred income includes amounts owed to customers through goods or services to be delivered, including in respect of free warranties. Non-current trade and other payables and non-current deferred income balances are not expected to be settled within the next financial year.

ACCOUNTING POLICIES

Trade payables: Trade payables are initially recognised at fair value and subsequently measured at amortised cost.

Deferred income: Deferred income is recognised when the Partnership has received cash in advance of providing a good or service. It includes revenue in respect of free warranties for Technology products. The Partnership allocates a portion of the consideration received for the Technology product to the free warranty on a cost plus margin basis. The amount allocated to the free warranty is deferred and recognised as revenue over the period of the guarantee on a straight-line basis.

CRITICAL ACCOUNTING ESTIMATES

Liabilities: Liabilities recognised in this note at the reporting date include amounts for unredeemed gift vouchers and gift cards. In order to estimate these liabilities, management must make assumptions around likely redemption rates. Management must therefore exercise a degree of estimation when predicting redemption patterns based on actual experience.

Deferred income: In relation to free warranties, deferred income is based on the expected future repair or replacement costs for all goods sold with a free warranty, plus a margin. The expected future costs are based on historical evidence of claims and costs to repair or replace. Management exercise a degree of estimation regarding the margin percentage.

	2021 £m	2020 £m
Trade and other payables		
Current:		
Trade payables	(997.3)	(915.6)
Other payables	(147.0)	(158.8)
Other taxation and social security	(133.7)	(169.3)
Accruals	(162.1)	(159.1)
Deferred income	(103.1)	(83.5)
Partnership Bonus	–	(27.6)
	(1,543.2)	(1,513.9)
Non-current:		
Other payables	(0.1)	(0.1)
Deferred income	(44.9)	(46.7)
	(45.0)	(46.8)

The carrying amount of trade and other payables approximates to fair value.

Notes to the consolidated financial statements (continued)

4.3 TRADE AND OTHER PAYABLES (CONTINUED)

Included in deferred income are contract liabilities for free warranties of £35.6m (2020: £42.4m) and payments from customers for goods and services sold but not delivered of £71.5m (2020: £50.0m). During the year an amount of £25.9m (2020: £26.8m) was released to the income statement in relation to free warranties matching to the period over which the free warranties are utilised. The deferral for the year was £19.0m (2020: £19.2m). All of the contract liabilities for goods and services sold but not delivered at 25 January 2020 have been recognised as revenue in the year ended 30 January 2021.

4.4 PROVISIONS

PURPOSE

We incur liabilities which have some uncertainty regarding the timing or the future cost required to settle them. These are termed provisions and have been estimated and provided for at the year-end. Our provisions primarily relate to the expected cost of long leave, expected customer refunds, insurance claims, reorganisation costs and property-related costs.

ACCOUNTING POLICIES

Provisions: *Provisions are recognised when the Partnership has an obligation in respect of a past event, it is more likely than not that payment (or a non-cash settlement) will be required to settle the obligation and where the amount can be reliably estimated. Provisions are discounted when the time value of money is considered material.*

Employee benefits: *The Partnership has a scheme to provide up to six months' paid leave after 25 years' service (long leave). The cost of providing the benefits under the scheme is determined using the projected unit credit actuarial valuation method. The current service cost is included within operating profit in the consolidated income statement. The financing elements of long leave are included in finance costs in the consolidated income statement. Actuarial gains or losses are taken directly to the consolidated income statement.*

CRITICAL ACCOUNTING ESTIMATES

Provisions: *As the provision for liabilities under the long leave scheme is assessed on an actuarial basis, estimates are required for the appropriate discount rate, staff turnover, salary increases and inflation. Significant movements in these assumptions could cause a material adjustment to the carrying amount of the provision.*

Provisions	Long leave £m	Customer refunds £m	Insurance claims £m	Reorganisation £m	Other £m	Total £m
At 25 January 2020	(153.5)	(28.8)	(25.3)	(21.9)	(24.0)	(253.5)
Charged to income statement	(15.6)	(37.2)	(8.8)	(131.5)	(37.6)	(230.7)
Released to income statement	11.3	–	–	12.6	9.6	33.5
Utilised	7.1	28.8	7.4	50.4	1.0	94.7
At 30 January 2021	(150.7)	(37.2)	(26.7)	(90.4)	(51.0)	(356.0)
Of which:						
Current	(36.5)	(37.2)	(11.4)	(90.4)	(18.1)	(193.6)
Non-current	(114.2)	–	(15.3)	–	(32.9)	(162.4)

Notes to the consolidated financial statements (continued)

4.4 PROVISIONS (CONTINUED)

The Partnership has a long leave scheme, open to all Partners, which provides up to six months' paid leave after 25 years' service. There is no proportional entitlement for shorter periods of service. The provision for the liabilities under the scheme is assessed on an actuarial basis, reflecting Partners' expected service profiles, salary growth, National Insurance and overtime earnings assumptions. The real discount rate applied differs from the real discount rate used for the Partnership's retirement benefits (note 6.1) as it reflects a rate appropriate to the shorter duration of the long leave liability, so as to accrue the cost over Partners' service periods. Illustrated below is the sensitivity of the long leave provision to changes in key assumptions. The sensitivities have been derived using approximate methods which are consistent with the rest of the disclosure:

	£m	% change
Long leave provision as at 30 January 2021	(150.7)	
Sensitivity of 0.1% increase to:		
- Discount rate	1.5	1.0%
- Salary growth	(1.5)	(1.0%)

Provisions for customer refunds reflect the Partnership's expected liability for returns of goods sold based on experience of rates of return.

Provisions for insurance claims are in respect of the Partnership's employer's, public and vehicle third-party liability insurances. The provisions are based on reserves held in the Partnership's captive insurance company,

JLP Insurance Limited. These reserves are established using independent actuarial assessments wherever possible, or a reasonable assessment based on past claims experience.

Provisions for reorganisation reflect restructuring and redundancy costs, principally in relation to head office reviews and shop closures. Within the current year, the reorganisation provision is a £66.3m provision for redundancies arising from the Head Office Transformation programme. As this programme was in its early stages at the year-end date the provision contains a significant degree of estimation and is sensitive to changes in assumptions on the number of Partners who leave through redundancy and the average salary and average service of those Partners. If 100 fewer Partners left through redundancy than expected, the provision would decrease by approximately £4.4m.

Other provisions primarily include property-related costs.

Notes to the consolidated financial statements (continued)

5 FINANCING

IN THIS SECTION

This section sets out what makes up our net finance costs, which are costs to service our financial and pension debt and income generated on our cash and investment balances. We also include revaluation movements on certain financial assets and liabilities. Information on the significant components of net debt is given in this section, including cash and cash equivalents, borrowings and overdrafts and leases.

5.1 NET FINANCE COSTS

PURPOSE

Net finance costs include our costs in respect of interest payable on borrowings, our defined benefit pension and other employee benefit schemes. Finance income includes interest received from short-term deposits, short-term investments and fair value movements.

	2021 £m	2020 £m
Finance costs		
Net interest payable on:		
Commitment fees and bank overdrafts	(2.1)	(1.3)
Other loans repayable within five years ¹	(28.1)	(26.3)
Other loans repayable in more than five years	(12.9)	(12.7)
Interest payable in relation to lease liabilities	(104.2)	(104.2)
Amortisation of issue costs of bonds and credit facilities	(2.6)	(1.5)
Share Incentive Plan dividends	(0.2)	(0.2)
Finance costs in respect of borrowings	(150.1)	(146.2)
Fair value measurements and other	(2.5)	(3.6)
Net finance costs arising on defined benefit retirement scheme	(7.8)	(6.9)
Net finance costs arising on other employee benefit schemes	(8.5)	(18.6)
Total finance costs	(168.9)	(175.3)
Finance income		
Finance income in respect of cash and short-term investments ²	8.8	11.4
Fair value measurements and other	2.5	2.3
Total finance income	11.3	13.7
Net finance costs	(157.6)	(161.6)

¹ Other loans repayable within five years includes interest payable on interest rate swaps of £5.3m (2020: £5.8m).

² Finance income in respect of cash and short-term investments includes interest receivable on interest rate swaps of £6.1m (2020: £6.1m).

Capitalised borrowing costs totalled £2.2m (2020: £5.1m) of which £2.1m (2020: £4.6m) were capitalised within Intangible assets and £0.1m (2020: £0.5m) were capitalised within property, plant and equipment.

Notes to the consolidated financial statements (continued)

5.2 ANALYSIS OF NET DEBT

PURPOSE

Net debt summarises our debt position as at the year-end, excluding the pension deficit. Net debt incorporates the Partnership's borrowings, bank overdrafts, fair value of derivative financial instruments and obligations under leases. These liabilities are offset by cash and cash equivalents, short-term investments and a portion of bond transaction costs that relate to the remaining duration of the bond. This note shows how our net debt position has moved from the prior year-end, split out between cash movements and non-cash movements.

	2020	Cash movements	Other non-cash movements	2021
	£m	£m	£m	£m
Non-current assets				
Derivative financial instruments	0.1	–	–	0.1
	0.1	–	–	0.1
Current assets				
Cash and cash equivalents	598.3	919.9	–	1,518.2
Short-term investments	317.2	(316.1)	(0.8)	0.3
Derivative financial instruments	4.8	(3.6)	6.0	7.2
	920.3	600.2	5.2	1,525.7
Current liabilities				
Borrowings and overdrafts	(43.1)	10.3	(75.0)	(107.8)
Unamortised bond transaction costs	–	–	–	–
Lease liabilities	(95.4)	194.3	(226.2)	(127.3)
Derivative financial instruments	(18.7)	8.2	(10.4)	(20.9)
	(157.2)	212.8	(311.6)	(256.0)
Non-current liabilities				
Borrowings	(726.1)	(149.2)	75.0	(800.3)
Unamortised bond transaction costs	9.4	0.8	(1.4)	8.8
Fair value adjustment for hedged element on bonds	(2.8)	–	(1.4)	(4.2)
Lease liabilities	(1,999.5)	–	89.5	(1,910.0)
Derivative financial instruments	(3.9)	–	1.2	(2.7)
	(2,722.9)	(148.4)	162.9	(2,708.4)
Total net debt	(1,959.7)	664.6	(143.5)	(1,438.6)

Notes to the consolidated financial statements (continued)

5.2 ANALYSIS OF NET DEBT (CONTINUED)

	2021 £m	2020 £m
Reconciliation of net cash flow to net debt		
Increase/(decrease) in net cash and cash equivalents in the year	919.9	(118.5)
Cash (inflow)/outflow from movement in short-term investments	(316.1)	51.4
Cash outflow from SIP shares	11.0	14.4
Cash outflow from movement in other net debt items	49.8	462.1
Cash movement in net debt for the year	664.6	409.4
Opening net debt	(1,959.7)	(88.6)
Adjustment on initial application of IFRS 16 ¹	–	(2,078.0)
Non-cash movement in net debt for the year	(143.5)	(202.5)
Closing net debt	(1,438.6)	(1,959.7)

¹ The Partnership initially applied IFRS 16 at 27 January 2019 and recognised £2.1bn of lease liabilities on the balance sheet. The Partnership applied IFRS 16 using the modified retrospective approach. Under this approach, comparative information is not restated and the cumulative effect of applying IFRS 16 is recognised in retained earnings at the date of initial application which was 27 January 2019.

Our total borrowings and lease liabilities are summarised below.

	Borrowings £m	Lease liabilities £m	Total £m
At 26 January 2019	(1,058.5)	(21.1)	(1,079.6)
Adjustment on initial application of IFRS 16 ¹	–	(2,078.0)	(2,078.0)
At 27 January 2019	(1,058.5)	(2,099.1)	(3,157.6)
Movements arising from financing cash flows	289.3	196.9	486.2
Other non-cash movements	–	(192.7)	(192.7)
At 25 January 2020	(769.2)	(2,094.9)	(2,864.1)
Movements arising from financing cash flows	(138.9)	194.3	55.4
Other non-cash movements	–	(136.7)	(136.7)
At 30 January 2021	(908.1)	(2,037.3)	(2,945.4)

¹ The Partnership has initially applied IFRS 16 at 27 January 2019 and recognised £2.1bn of lease liabilities on the balance sheet. The Partnership applied IFRS 16 at 27 January 2019, using the modified retrospective approach. Under this approach, comparative information is not restated and the cumulative effect of applying IFRS 16 is recognised in retained earnings at the date of initial application which was 27 January 2019.

Borrowings exclude unamortised bond transaction costs of £8.8m (2020: £9.4m) and the fair value adjustment for hedged element on bonds of £4.2m loss (2020: £2.8m loss).

5.3 SHORT-TERM INVESTMENTS

PURPOSE

Our short-term investments represent amounts on short-term deposits. They are deposited for a period of greater than 90 days but less than one year with financial institutions.

ACCOUNTING POLICIES

Short-term investments: *Short-term investments comprise tradable securities and deposits with original maturities of greater than 90 days but less than one year. Maturity periods are not the sole factor. Investments in Variable Net Asset Values (VNAV) with a weighted average maturity of less than 90 days, are included within short-term investments due to the fact they do not bear an insignificant risk of changes in value.*

	2021 £m	2020 £m
Short-term investments		
Short-term investments	0.3	317.2

For the year ended 30 January 2021, the effective interest rate on short-term investments was 0.7% (2020: 1.1%) and these investments had an average maturity of 75 days (2020: 62 days).

The decrease in short-term investments year on year reflects a temporary shift from short-term investments to cash and cash equivalents. This shift provided quicker access to cash, helping to mitigate uncertainty and possible trading volatility caused by Covid-19.

5.4 CASH AND CASH EQUIVALENTS

PURPOSE

Our cash and cash equivalents include cash in hand and cash placed on short-term deposits of less than 90 days with financial institutions and money market funds.

ACCOUNTING POLICIES

Cash and cash equivalents: Cash and cash equivalents on the balance sheet comprise cash at bank and in hand and short-term deposits with original maturities of less than 90 days which are subject to an insignificant risk of changes in value. In the consolidated statement of cash flows, net cash and cash equivalents comprise cash and cash equivalents, as defined above, net of bank overdrafts.

	2021 £m	2020 £m
Cash and cash equivalents		
Cash at bank and in hand	178.2	151.2
Short-term deposits	1,340.0	447.1
	1,518.2	598.3

For the year ended 30 January 2021, the effective interest rate on short-term deposits was 0.2% (2020: 0.7%) and these deposits had an average maturity of two days (2020: three days).

At 30 January 2021, £11.8m (2020: £13.4m) of the Partnership's cash balance and £nil (2020: £nil) of the Partnership's accrued interest balance was pledged as collateral. This is part of the Partnership's insurance arrangements and the release of these funds is subject to approval from third parties.

5.5 BORROWINGS AND OVERDRAFTS

PURPOSE

Our borrowings comprise bonds, bank loans, bank overdrafts and Share Incentive Plan shares, which are held in trust for the benefit of Partners.

ACCOUNTING POLICIES

Borrowings: Borrowings are initially recognised at fair value net of transaction costs and subsequently measured at amortised cost. Where there is an effective related fair value hedge, the movement in the fair value attributable to the hedged risk is separately disclosed.

Arrangement costs for bonds and loan facilities in respect of debt are capitalised and amortised over the life of the debt at a constant rate. Finance costs are charged to the income statement, based on the effective interest rate of the associated borrowings.

Borrowing costs attributable to the acquisition or construction of a qualifying asset are capitalised. Qualifying assets are those that take a substantial period of time to get ready for their intended use. Capitalisation commences when both expenditure on the asset and borrowing costs are being incurred. Capitalisation ceases when the asset is ready for its intended use. The capitalisation rate used to determine the borrowing costs eligible for capitalisation is 3.1% (2020: 4.7%).

Share Incentive Plan: The Share Incentive Plan (SIP or BonusSave) is initially measured at fair value and the liability is subsequently measured at amortised cost. It is de-recognised once the liability has been settled.

Borrowings and overdrafts	2021 £m	2020 £m
Current:		
Share Incentive Plan shares (SIP)	(32.8)	(43.1)
Bank loans	(75.0)	–
	(107.8)	(43.1)
Non-current:		
Bank loans ¹	(200.0)	(125.1)
6¼% Bonds, 2025	(300.0)	(300.0)
4¼% Bonds, 2034	(300.0)	(300.0)
Unamortised bond and loan transaction costs	8.8	9.4
Fair value adjustment for hedged element on bonds	(4.2)	(2.8)
Share Incentive Plan shares (SIP)	(0.3)	(1.0)
	(795.7)	(719.5)

¹ Additional bank loans were agreed in 2020/21. See section 7.1.2.

All borrowings are unsecured, denominated in Sterling and are repayable on the dates shown, at par.

The Partnership operates the BonusSave scheme, a share incentive plan (SIP) which allows Partners to elect to invest part of their Partnership Bonus back into the Partnership. SIP shares are issued as part of the BonusSave scheme. Partners who wish to invest part of their Partnership Bonus in SIP shares are entitled to a dividend, the amount of which is determined from year to year by the Partnership Board. The amounts receivable in a winding up would be limited to the amounts that have been paid on the SIP shares. The amounts in respect of SIP shares are classified as debt as the Partnership has a clear obligation to repay the amounts.

The BonusSave scheme is operated by John Lewis Partnership Trust Limited which purchases SIP shares on behalf of Partners who have chosen to invest a portion of their bonus for this purpose. At 30 January 2021, the value of SIP shares purchased by John Lewis Partnership Trust Limited on behalf of Partners was £33.1m (2020: £44.1m), £71.1m lower than the value of SIP shares issued of £104.2m (2020: £104.2m).

Notes to the consolidated financial statements (continued)

5.5 BORROWINGS AND OVERDRAFTS (CONTINUED)

The SIP shares shown as current and non-current borrowings above reflect amounts owed directly to Partners in respect of the scheme. The cash flow movement as a result of the net subscriptions and redemptions of shares of £11.0m (2020: £14.4m) is shown as an operating cash flow in the consolidated statement of cash flows alongside the Partnership Bonus paid during the year. Payments made to SIP shareholders, in respect of interest of £0.3m (2020: £0.3m) are shown as cash flows used in financing operations.

5.6 LEASE LIABILITIES

PURPOSE

The Partnership enters into leases for property, plant and equipment. The Partnership's lease portfolio is principally comprised of property leases of land and buildings in relation to Waitrose and John Lewis shops, distribution centres and head offices. The leases typically run for terms between 5 and 100 years and may include break clauses or options to renew beyond the non-cancellable periods. The majority of the Partnership's lease payments are subject to market review, usually every five years, and some lease agreements include rental payments contingent on turnover or economic indices. These contingent lease payments are excluded from the calculation of lease liabilities under IFRS 16.

ACCOUNTING POLICIES

Lease liabilities: *The Partnership assesses whether a contract is or contains a lease based on whether the contract conveys a right to control the use of an identified asset for a period of time in exchange for consideration.*

At inception or on reassessment of a contract that contains a lease component, the Partnership allocates the consideration in the contract to each lease and non-lease component on the basis of their relative stand-alone prices.

Under IFRS 16, the Partnership recognises right-of-use assets and lease liabilities at the lease commencement date. The lease liabilities are initially measured at the present value of the lease payments that are not yet paid at the commencement date, discounted using the interest rate implicit in the lease or, if that rate cannot be readily determined, the Partnership's incremental borrowing rate. Generally, the Partnership uses the incremental borrowing rate as the discount rate and this rate is determined on a portfolio basis, in relation to asset type and location.

Lease liabilities are subsequently measured at amortised cost and are increased by the interest charge and decreased by the lease payments made. Lease liabilities are remeasured when there is a change in future lease payments arising from a change in an index or rate, a change in the estimate of the amount expected to be payable under a residual value guarantee, or as appropriate, changes in the assessment of whether a renewal or purchase option is reasonably certain to be exercised or a break clause is reasonably certain not to be exercised.

The Partnership has elected to apply the exemption for recognising right-of-use assets and lease liabilities on the balance sheet where the underlying asset is of low value. Lease expenses relating to low value assets will be recognised in the income statement on a straight-line basis.

In relation specifically to vehicle leases, the Partnership has also elected to apply the exemption for short-term leases and therefore will not recognise right-of-use assets and lease liabilities on the balance sheet for vehicle leases of less than 12 months in duration.

Contingent rentals are recognised as an expense in the income statement when incurred.

Sub-lease income is recognised as other operating income on a straight-line basis over the sub-lease term, less allowances for situations where recovery is doubtful.

Sale and leaseback: A sale and leaseback transaction is where the Partnership sells an asset and immediately leases back the same asset from the buyer. On sale, the property, plant and equipment asset is derecognised from the balance sheet and the Partnership measures a right-of-use asset arising from the leaseback at the proportion of the previous carrying amount of the asset that relates to the rights of use retained by the Partnership. The Partnership also recognises a lease liability at the date of the transaction. Any gain or loss that relates to the rights of the buyer is recognised in the income statement.

KEY JUDGEMENTS

Lease terms: The Partnership has applied judgement to determine the lease term for those lease contracts that include a renewal or break option. The assessment of whether the Partnership is reasonably certain to exercise a renewal option or reasonably certain not to exercise a break option significantly impacts the value of lease liabilities and right-of-use assets recognised on the balance sheet.

Extension options and break clauses are included in a number of the Partnership's leases. These are used to maximise flexibility in terms of managing the assets used in the Partnership's operations. In determining the lease term, management considers all facts and circumstances that create an economic incentive to exercise an extension option, or not utilise a break clause. Extension options (or periods after break clauses) are only included in the lease term if the lease is reasonably certain to be extended (or break clause not utilised).

For leases of shops, distribution centres, offices and vehicles, the following factors are considered the most relevant:

- If there are significant penalties to break leases (or not extend), the Partnership is typically reasonably certain to extend (or not to utilise the break clause); and
- The Partnership considers other factors including the likely value of future rentals, the importance of the underlying assets to the Partnership's operations, whether the asset is specialised in nature and the costs and business disruption required to replace the leased asset.

The following amounts are included in the Partnership's consolidated financial statements in respect of its leases:

	2021 £m	2020 £m
Depreciation charge for right of use assets (excluding impairment) (see note 3.2)	(136.9)	(134.7)
Interest expense on lease liabilities	(104.2)	(104.2)
Expense relating to short-term leases	(0.8)	(0.8)
Expense relating to leases of low-value assets that are not shown above as short-term leases	(1.8)	(1.8)
Expense relating to variable lease payments not included in lease liabilities	(3.2)	(5.5)
Total cash outflow for leases comprising interest and capital payments (see note 5.2)	(194.3)	(196.9)
Additions to right-of-use assets (see note 3.2)	134.6	80.5
Carrying amount of right-of-use assets (see note 3.2)	1,540.2	1,854.9
Gains arising from sale and leaseback transactions ¹	12.7	14.8
Income from sub-leasing right-of-use assets	5.2	5.7

¹ The Partnership completed sale and leaseback transactions during the year in relation to 11 shops (2020: 7 shops). Cash proceeds of £136.2m (2020: £103.7m) were received.

We currently do not disclose potential future undiscounted lease payments not included in lease liabilities as these are subject to a high level of judgement regarding expected lease extension terms and future end dates. Additionally, the value of rental payments are subject to future market rates applicable as at the date of extension which are parameters not yet publicly known. As a result, we do not consider the potential future undiscounted lease payments to be able to be reliably estimated. There were no leases not yet commenced to which the Partnership is committed that are not included in lease liabilities as at the year-end.

Notes to the consolidated financial statements (continued)

6 PENSIONS

IN THIS SECTION

This section sets out our net pension liability, which is the current cost of meeting future defined pension payments, offset by assets held by the scheme to meet these liabilities.

6.1 RETIREMENT BENEFITS

PURPOSE

The Partnership's pension scheme is made up of two parts: the defined benefit section and the defined contribution section. The defined benefit section provides a non-contributory pension in retirement based on Partners' pensionable pay and pensionable service. The defined contribution section is where contributions made by Partners and the Partnership are invested in a choice of funds and then the contributions and investment returns are used to buy benefits on retirement.

The consolidated balance sheet includes a retirement benefit liability, which is the expected future cash flows to be paid out by the defined benefit section of the pension scheme, offset by assets held by the scheme to meet these liabilities. The expected liabilities are calculated by an actuary using a number of financial and demographic assumptions whilst the assets are held at fair value.

On 1 April 2020, the defined benefit section of the scheme closed to future accrual. Following closure, members' deferred pensions will now increase annually by inflation up to 5% per annum (measured using the Consumer Price Index, CPI).

The defined contribution section of the scheme is available to all Partners and pays fixed contributions into individual investment funds on Partners' behalf. There is therefore no liability on the Partnership balance sheet relating to the defined contribution section of the pension scheme, other than any accrual for the previous period's monthly defined contribution payments.

This note details the financial and demographic assumptions made in estimating the defined benefit obligation, together with an analysis of the components of the pension liability. It also explains where these amounts have been recorded in the consolidated balance sheet and the consolidated income statement.

ACCOUNTING POLICIES

Employee benefits: *The defined benefit scheme assets are held separately from the Partnership. The cost of providing benefits under the defined benefit section of the scheme is determined using the projected unit credit actuarial valuation method, which measures the liability based on service completed and allows for projected future increases.*

The current service cost is the increase in the present value of the retirement benefit obligation resulting from employees' service in the current year, up to 1 April 2020. The current service cost is included within operating profit in the consolidated income statement. Following the closure of the defined benefit section of the pension scheme, no future current service costs will be recognised.

The past service cost represents the change in the present value of the retirement benefit obligation in relation to employees' service in prior years. This may arise as a result of amendments made to the defined benefit scheme during the year, or a reduction in the number of employees covered by the scheme. Past service costs are also included within operating profit, along with any gains or losses on settlement.

Remeasurements of defined benefit pension schemes due to experience adjustments and changes in actuarial assumptions are charged or credited to equity in other comprehensive income during the period in which they arise.

There are a number of unfunded pension liabilities, where the actuarially assessed costs of providing the benefit are charged to the consolidated income statement. There are no assets supporting these arrangements.

Contributions to the Partnership's defined contribution section are charged to the income statement as they are incurred. The Partnership has no further obligation once the contributions have been made.

The Partnership also has a scheme to provide up to six months' paid leave after 25 years' service (long leave). The liability relating to long leave is included within provisions in note 4.4.

CRITICAL ACCOUNTING ESTIMATES

Retirement benefits: *This section details the assumptions used to calculate the total defined benefit pension obligation. This is the estimate of the current cost of meeting future benefits to be paid out by the pension scheme. The calculation requires the application of a discount rate to estimate the present day fair value of the pension payments, as well as assumptions on mortality rates, salary increases and inflation. Given the size of the Partnership's defined benefit obligation, relatively small movements in these assumptions could cause a material adjustment to the carrying amount of the obligation. Sensitivity analysis on the discount rate and other key assumptions is provided in note 6.1.5.*

Retirement benefits

The pension scheme operated by the Partnership is the John Lewis Partnership Trust for Pensions. The scheme is governed by a corporate Trustee which is independent of the Partnership. The Trustee is responsible for the operation and governance of the scheme, including making decisions regarding the scheme's investment strategy.

The scheme includes a funded final salary defined benefit section, providing pensions and death benefits to members. This scheme closed to new members and future accrual on 1 April 2020 and all active members of the scheme moved to become deferred members.

Following closure, members' deferred pensions will now increase annually by inflation up to 5% per annum (measured using CPI), which is generally lower than the previous pay growth assumption and resulted in a reduction of the defined benefit obligation on closure. The accounting impact of the closure was a reduction in the defined benefit obligation of £156.0m. This reflected a past service gain of £249.0m, recognised as an exceptional credit at 25 January 2020, representing the break in future salary linkage. The gain was partially offset by a £93.0m actuarial loss, recognised through equity. This reflected a decrease in future expected commutation of the defined benefit pensions (i.e. exchanging defined benefit pensions for tax-free cash), as the defined contribution element of Partners' total pension entitlement increases. All contributions to the defined benefit section of the pension scheme to meet the obligations are funded by the Partnership.

On 20 January 2017, the Partnership announced changes in the way that the annual discretionary increase for pension in retirement built up before 6 April 1997 would be applied. Prior to January 2017, increases in pension in retirement for pensionable service built up before 6 April 1997 had been granted in line with the Retail Price Index (RPI) inflation (up to a maximum of 5%). From January 2017, this increase is granted in line with CPI inflation (up to a maximum of 2.5%).

The scheme also includes a defined contribution section. Contributions to the defined contribution section of the scheme are made by both Partners and the Partnership.

Funding valuation

The pension scheme is subject to a full actuarial valuation every three years using assumptions agreed between the Trustee and the Partnership. The purpose of this valuation is to design a funding plan to ensure that the pension scheme has sufficient funds available to meet future benefit payments.

Notes to the consolidated financial statements (continued)

6.1 RETIREMENT BENEFITS (CONTINUED)

The most recent valuation has been carried out by an independent professionally qualified actuary as at 31 March 2019. As part of the triennial actuarial valuation of the scheme, underlying membership data was updated as at 31 March 2019. This resulted in an actuarial gain as at 25 January 2020, recognised through equity, of £160.6m, reflecting the difference between actual experience compared to assumptions made in estimating the asset and liability growth. Pension commitments recognised in these financial statements have been calculated based on that updated membership data rolled forward for known movements.

The valuation at 31 March 2019 resulted in a funding deficit of £58.0m (31 March 2016: £479.0m). The market value of the assets of the scheme as at 31 March 2019 was £6,012.0m (31 March 2016: £4,377.0m). The actuarial valuation showed that these assets were sufficient to cover 99% (31 March 2016: 90%) of the benefits which had accrued to members.

The valuation calculated under the funding valuation basis of £58.0m is different from the accounting valuation which is presented on the balance sheet in the Partnership's financial statements of £646.9m. Differences arise between the funding valuation and accounting valuation, mainly due to the use of different assumptions to value the liabilities and changes in market conditions between the two valuation dates, of 31 March 2019 and 30 January 2021.

For funding valuation purposes the liabilities are determined based on assumptions set by the Trustee following consultation with the Partnership and Scheme Actuary. The discount rate used for the funding valuation as at 31 March 2019 is based on index linked gilt yields plus 2.2% and 0.8% for pre and post retirement respectively.

In the financial statements the liabilities are determined in accordance with IAS 19. The discount rate used for the accounting valuation is based on high quality (AA) corporate bond yields of an appropriate term.

As a result of the funding valuation, the Partnership and the Trustee agreed to put in place a plan to eliminate the deficit of £58.0m over a six-year period. As part of this plan, it was agreed that deficit reducing contributions would be paid in equal monthly instalments from 1 April 2020 to 31 March 2026 totalling £10m per annum.

The next triennial actuarial valuation of the scheme will take place as at 31 March 2022.

During the year, the Partnership and the Trustee also agreed a long term derisking framework, see section 6.1.4 for more details.

Pension commitments recognised in these accounts have been calculated based on the most recent actuarial valuation, as at 31 March 2019, which has been updated by actuaries to reflect the assets and liabilities of the scheme as at 30 January 2021, calculated on assumptions that are appropriate for accounting under IAS 19.

Risk management

The cost of the scheme to the Partnership depends upon a number of assumptions about future events. Future contributions may be higher or lower than those currently agreed if these assumptions are not borne out in practice or if different assumptions are agreed in the future.

Notes to the consolidated financial statements (continued)

6.1 RETIREMENT BENEFITS (CONTINUED)

Specific risks include:

- Changes in future expectations of price inflation: The majority of the scheme's benefit obligations are linked to inflation and higher inflation will lead to higher liabilities. Hence, an increase in inflation will increase the deficit. This is offset in part by the Trustee's liability matching scheme as detailed in 6.1.4.
- Changes in the discount rate used to value pension liabilities: A lower discount rate will lead to a higher present value being placed on future pension payments. Hence, a reduction in discount rate will increase the deficit. This is offset in part by the Trustee's liability matching scheme as detailed in 6.1.4.
- The return on assets being lower than assumed: If the rate of growth in assets falls below the discount rate used to value the liabilities then the pension deficit will increase. This is offset in part by the Trustee's investment strategy of holding a highly diversified portfolio of return seeking assets as detailed in 6.1.4.
- Falls in asset values not being matched by similar falls in the value of liabilities: As the majority of assets held by the scheme are not matched to the liabilities of the scheme, a fall in plan assets will lead to an increase in the deficit. This is offset in part by the Trustee's investment strategy of holding a highly diversified portfolio of return seeking assets as detailed in 6.1.4; and
- Unanticipated increase in life expectancy leading to an increase in the scheme's liabilities: An increase in life expectancy would mean pensions are expected to be paid for a longer period, so increasing the liability and the scheme's deficit. This is offset in part by the scheme applying a Life Expectancy Adjustment Factor, whereby future pensions coming into payment are adjusted to allow for increases in life expectancy.

6.1.1 ASSUMPTIONS

PURPOSE

This section details the assumptions used to calculate the total defined benefit pension obligation. This is the estimate of the current cost of meeting future benefits to be paid out by the pension scheme. The calculation includes applying a discount rate to estimate the present day fair value of the pension payments, allowing for future expected increases in earnings and pension payments and the life expectancy of the members of the pension scheme.

Financial assumptions

Scheme assets are stated at market values at 30 January 2021. The following financial assumptions have been used to value the obligation:

	2021	2020
Discount rate	1.55%	1.90%
Future RPI inflation	2.75%	2.80%
Future CPI inflation	2.30%	2.00%
Increase in pensions – in payment		
Pre-April 1997	1.75%	1.60%
April 1997-April 2016	2.65%	2.70%
Post-April 2016	1.75%	1.60%
Increase in pensions – deferred	2.30%	2.00%

Nominal discount rate: IAS 19 Employee Benefits requires that the nominal discount rate is set by reference to market yields on high quality corporate bonds of a suitable term consistent with the scheme cash

Notes to the consolidated financial statements (continued)

6.1 RETIREMENT BENEFITS (CONTINUED)

6.1.1 ASSUMPTIONS (CONTINUED)

flows. Where there are no high quality corporate bonds of appropriate duration to reference, an extrapolation from other bond yields is required. The Partnership's pension scheme has cash flows spanning out over 50 years and an average duration of 23 years. At long durations there are few suitable high quality corporate bonds to reference in setting the nominal discount rate assumption. The model adopted by the Partnership is a yield curve approach, based on corporate bonds within the iBoxx AA corporate bond index. At very long durations, where there are no high quality corporate bonds of appropriate duration to reference, the yield curve is extrapolated based on observable corporate bond yields of mid to long durations reflecting expected yields on high quality corporate bonds over the duration of the Partnership's pension scheme.

Future RPI and CPI inflation: The inflation assumptions used to calculate the Partnership's defined benefit pension obligations are based on a cash flow weighted Bank of England RPI, which is then adjusted for inflation risk. As at 30 January 2021, in order to reflect the impact of recent confirmation by the UK Chancellor and the UK Statistics Authority (UKSA) to align the RPI with CPIH (a variant of the Consumer Price Index that includes an estimate of housing costs) from 2030, the assumptions applied to adjust for the inflation risk premium and the long-term gap between RPI and CPI were reassessed for the period beyond 2030. An inflation risk premium of 0.2% has been applied until 2030, increasing to 0.5% beyond this date (an average margin of 0.35%). A long-term gap of 1.0% between RPI and CPI has been applied until 2030, reducing to 0.1% beyond this date (an average long-term gap of 0.45%). The impact of these changes has resulted in an actuarial loss of £68.5m recognised in equity.

Demographic assumptions

The post-retirement mortality assumptions used in valuing the pension liabilities were based on the S2 Light (2020: S2 Light) series standard tables. Based on scheme experience, the probability of death at each age was multiplied by 127% for males and 106% for females. Future improvements in life expectancy have been allowed for in line with the CMI 2018 improvements model with a smoothing parameter of 7.0 (2020: CMI 2018, smoothing parameter of 7.0) subject to a long-term trend of 1.25%.

The average life expectancies assumed were as follows:

	2021		2020	
	Male	Female	Male	Female
Average life expectancy for a 65 year old (in years)	21.1	23.4	21.0	23.3
Average life expectancy at age 65, for a 50 year old (in years)	22.0	24.5	21.9	24.5

Notes to the consolidated financial statements (continued)

6.1 RETIREMENT BENEFITS (CONTINUED)

6.1.2 AMOUNTS RECOGNISED IN THE FINANCIAL STATEMENTS

PURPOSE

This section details the amounts recognised in our consolidated financial statements in relation to the defined benefit section of our pension scheme. This consists of the net pension liability, recognised on our balance sheet, the cost of providing the pension benefit over the year, recognised in the income statement, and actuarial gains and losses (being changes in assumptions, or assumptions not being borne out in practice) which are recognised in the statement of comprehensive income/(expense). The movements are broken down into the key components that impact the defined benefit section of the pension scheme.

	2021 £m	2020 £m
Amounts recognised in the balance sheet		
Defined benefit obligation for funded arrangements	(7,422.8)	(6,798.9)
Defined benefit obligation for unfunded arrangements	(20.7)	(22.1)
Total defined benefit obligation	(7,443.5)	(6,821.0)
Total value of scheme assets	6,796.6	6,403.6
Defined benefit liability at end of year	(646.9)	(417.4)

PURPOSE

The cost of providing the pension scheme over the year, recognised in the consolidated income statement, is broken down as follows:

Service cost is the cost to the Partnership of future benefits earned by members which is attributable to members' service in the current period. Following the closure of the defined benefit section of the pension scheme on 1 April 2020, no further service costs will be recognised.

Contribution expense is in respect of the Partnership's contributions to the defined contribution section of the pension scheme and cash supplements in respect of certain Partners in lieu of future pension accrual.

Administrative expenses are in relation to the pension scheme. Net interest on the net defined benefit liability is made up of the interest cost on pension liabilities and interest income on pension assets.

	2021 £m	2020 £m
Amounts recognised in the income statement		
Current service cost	(18.9)	(109.1)
Past service gain as a result of closure ¹	–	249.0
Contribution expense ²	(107.9)	(82.0)
Administrative expenses – funded by the pension scheme	(7.7)	(7.0)
Administrative expenses – funded by the employer	(8.8)	(5.9)
Total operating (expense) / income	(143.3)	45.0
Net interest on net defined benefit liability	(7.8)	(6.9)
Total pension (charge) / credit	(151.1)	38.1

¹ This was recognised as exceptional income, see note 2.5 for details.

² Includes Partnership contributions to the defined contribution section of the pension scheme of £105.7m (2020: £78.0m), together with cash supplements in respect of certain Partners in lieu of future pension accrual of £2.2m (2020: £4.0m). Of the total contribution expense, £0.3m was recognised as an exceptional expense, see note 2.5 for details.

Notes to the consolidated financial statements (continued)

6.1 RETIREMENT BENEFITS (CONTINUED)

6.1.3 RECONCILIATION OF RETIREMENT BENEFITS

Amounts recognised in equity	2021 £m	2020 £m
Return on plan assets greater than interest income	412.6	693.6
Remeasurements:		
– loss from changes in financial assumptions	(618.1)	(1,004.3)
– loss from changes in demographic assumptions	(64.4)	(43.5)
– experience gains	32.5	160.6
Total loss recognised in equity	(237.4)	(193.6)

PURPOSE

The net defined benefit pension liability is the difference between the total pension liability (being the expected cost of making future defined benefit pension payments) and scheme assets. The table below details movements in the net defined benefit pension liability during the year. Movements in scheme assets are explained further in 6.1.4.

Movements in the net defined benefit liability are as follows:

Pension expense, which is the cost associated with providing defined benefit pension benefits over the year. This is equal to the pension operating expense set out above in 6.1.2, but excluding contribution expense and administrative expenses met directly by the employer.

Contributions paid into the scheme will reduce the value of the net pension liability.

Gains or losses recognised in equity relating to returns on plan assets being different to the interest income and remeasurements (explained further below).

Reconciliation of net defined benefit liability	2021 £m	2020 £m
Net defined benefit liability at beginning of year	(417.4)	(468.1)
Pension (charge)/credit	(34.4)	126.0
Contributions	42.3	118.3
Total losses recognised in equity	(237.4)	(193.6)
Net defined benefit liability at end of year	(646.9)	(417.4)

PURPOSE

The total pension liability (or defined benefit obligation) represents the current cost of meeting the future benefits to be paid out by the scheme. The movements in the defined benefit obligation are broken down into key areas that impact the obligation as follows:

Service cost is the cost to the Partnership of future benefits earned by members which are attributable to members' service in the current period. The service cost is charged to the income statement, along with any gains or losses on settlement. Following the closure of the defined benefit section of the pension scheme, there will be no further current or past service costs recognised from 1 April 2020.

Future pension obligations are stated at present value. A discount rate is used to calculate the current value of the future liability.

The interest on pensions liabilities is the unwinding of this discount rate and is charged to the income statement within net finance costs.

Remeasurements arise from the uncertainty in making assumptions about future events when calculating the liability. These may arise from changes in assumptions, for example movements in the discount rate, or experience adjustments which result from differences between the assumptions made and what actually occurred over the period. Remeasurements are recognised in equity and shown in the statement of comprehensive income/(expense).

Any cash benefits paid out by the scheme will reduce the defined benefit obligation.

	2021 £m	2020 £m
Reconciliation of defined benefit obligation		
Defined benefit obligation at beginning of year	(6,821.0)	(6,083.0)
Past service gain as a result of closure	–	249.0
Current service cost	(18.9)	(109.1)
Interest on pension liabilities	(128.1)	(159.3)
Remeasurements		
– loss from changes in financial assumptions	(618.1)	(1,004.3)
– loss from changes in demographic assumptions	(64.4)	(43.5)
– experience gains	32.5	160.6
Benefits paid	174.5	168.6
Defined benefit obligation at end of year	(7,443.5)	(6,821.0)

The scheme liabilities are nil in respect of active scheme participants, 71.2% in respect of deferred scheme participants and 28.8% in respect of retirees.

The weighted average duration of the scheme liabilities at the end of the year is 23 years (2020: 22 years).

PURPOSE

The pension scheme holds a number of investments to meet future pension payments, referred to as the assets of the scheme. This note details movements in the value of pension assets during the year. The movements are broken down into key areas that impact the pension assets as follows:

Interest income on assets represents the expected return on investments if it is in line with the discount rate. It is calculated as the discount rate at the beginning of the year multiplied by the value of the assets at the beginning of the year. This is recognised within net finance costs in the income statement.

Return on plan assets greater/(less) than interest income represents how much greater or less the actual return is than the interest income. This is recognised in equity and shown in the statement of comprehensive income/(expense).

Any cash benefits paid out or expenses paid by the scheme will reduce the value of the scheme's assets.

Contributions paid into the scheme will increase the value of the scheme's assets.

Notes to the consolidated financial statements (continued)

6.1 RETIREMENT BENEFITS (CONTINUED)

6.1.3 RECONCILIATION OF RETIREMENT BENEFITS (CONTINUED)

	2021 £m	2020 £m
Reconciliation of value of assets		
Value of assets at the beginning of year	6,403.6	5,614.9
Interest income on assets	120.3	152.4
Return on plan assets greater than interest income	412.6	693.6
Benefits paid	(174.5)	(168.6)
Administrative expenses paid	(7.7)	(7.0)
Contributions	42.3	118.3
Value of assets at the end of year	6,796.6	6,403.6

6.1.4 ANALYSIS OF ASSETS

	2021				2020			
	Quoted £m	Unquoted £m	Total £m	Total	Quoted £m	Unquoted £m	Total £m	Total
Equities								
UK	37.4	24.6	62.0	0.9%	45.7	39.0	84.7	1.3%
Rest of the world	769.9	1,163.7	1,933.6	28.4%	887.5	1,178.2	2,065.7	32.3%
Bonds								
Government – Rest of the world	203.5	2.1	205.6	3.0%	113.8	0.1	113.9	1.8%
Corporates – UK	11.9	0.9	12.8	0.2%	3.6	–	3.6	<0.1%
Corporates – Rest of the world	221.6	217.2	438.8	6.5%	86.5	113.6	200.1	3.1%
Property								
UK	–	496.9	496.9	7.3%	–	516.9	516.9	8.1%
Rest of the world	–	0.1	0.1	<0.1%	–	0.1	0.1	<0.1%
Alternative assets								
Liability driven investments	–	1,709.2	1,709.2	25.1%	–	1,530.4	1,530.4	23.9%
Hedge funds	–	588.1	588.1	8.7%	–	642.9	642.9	10.0%
Private equity	–	418.4	418.4	6.2%	–	375.5	375.5	5.9%
Other alternative assets	–	687.4	687.4	10.1%	–	613.2	613.2	9.6%
Cash and other	243.7	–	243.7	3.6%	256.6	–	256.6	4.0%
Total market value of assets	1,488.0	5,308.6	6,796.6	100.0%	1,393.7	5,009.9	6,403.6	100.0%

Notes to the consolidated financial statements (continued)

6.1 RETIREMENT BENEFITS (CONTINUED)

6.1.4 ANALYSIS OF ASSETS (CONTINUED)

The Trustee's investment strategy was revised during the year and is contained in their Statement of Investment Principles dated 25 September 2020. That investment strategy which the Trustee consulted upon with the Partnership is to target full funding on a low dependency basis by 2044. The Trustee will pursue an investment strategy that generates investment returns in excess of government bonds but with a risk level that is commensurate with the strength of the covenant. During the year the Trustee and the Partnership agreed a derisking framework to help determine the appropriate allocation to the Return-Seeking portfolio based on improvements in the Trust's funding level at a given point in time, with the overall aim of reducing risk and reducing the Scheme's future reliance on the Partnership. The Trustee has commenced activity since the year-end and as a result, £809.4m of the Scheme's investment in equities has been moved into lower risk investments.

The interest rate hedging at the year-end was 100% of assets and the inflation coverage was 80%.

In 2018, the Trustee implemented an equity hedge strategy. Its objective was to reduce the value-at-risk contribution from equities by approximately 50% while giving up limited upside in a market rally. This is achieved by replicating a portfolio of long-dated, at-the-money put options whilst selling short-dated, out-of-the-money call options. This is structured as a total return swap. The equity hedge was half unwound towards the end of 2018 and was taken off completely in March 2020 as it had achieved its objective.

Equities, bonds and certain alternative assets which are traded on active markets are included at the quoted price, which is normally the bid price. Properties are valued by independent valuers who have recent experience of the locations and type of properties held. Equities and alternative assets that are neither quoted nor traded on an active market are stated at fair value estimates provided by the manager of the investment or fund.

Liability driven investments include UK Government bond and cash equivalent assets valued at £3,693.8m (2020: £3,221.5m) and associated repurchase agreements and swaps valued at £(1,984.6)m (2020: £(1,691.1)m). This is part of the Trustee's interest rate and inflation hedging strategy.

Other alternative assets include investments in infrastructure funds of £308.4m (2020: £309.0m), insurance linked funds £79.7m (2020: £95.1m), private debt £299.3m (2020: £239.2m) and equity options £nil (2020: £(30.1)m).

Cash and other includes cash deposits of £235.8m (2020: £247.4m), forward foreign exchange contracts valued at £8.7m (2020: £12.6m) and other items valued at £(0.8)m (2020: £(3.4)m).

	2021 £m	2020 £m
Actual return on assets		
Interest income on assets	120.3	152.4
Return on plan assets greater than interest income	412.6	693.6
Actual return on assets	532.9	846.0

Notes to the consolidated financial statements (continued)

6.1 RETIREMENT BENEFITS (CONTINUED)

6.1.5 SENSITIVITY ANALYSIS

PURPOSE

The defined benefit deficit is volatile given that it is based on a number of long-term assumptions, which are likely to change over time. Illustrated below is the sensitivity of the defined benefit obligation to changes in key assumptions.

The sensitivities have been derived using approximate methods which are consistent with the rest of the disclosure:

	£m	% change
Defined benefit obligation as at 30 January 2021	(7,443.5)	
Sensitivity of 0.1% increase to:		
– Discount rate ¹	170.3	2.3
– Retail price inflation	(34.7)	(0.5)
– Consumer price inflation	(76.5)	(1.0)
Sensitivity of one-year increase in life expectancy	(274.9)	(3.7)

¹ The discount rate sensitivity does not allow for the impact of the Trustee's investment strategy. As set out in note 6.1.4 this is designed to offset movements in the discount rate and their impact on the liabilities.

6.1.6 OTHER ARRANGEMENTS

JLP Scottish Limited Partnership

On 30 January 2010, the Partnership entered into an arrangement with the Pension Scheme Trustee to address an element of the scheme deficit that existed at that time.

The Partnership established two partnerships, JLP Scottish Limited Partnership and JLP Scottish Partnership, which are both consolidated within these Partnership financial statements.

Together with another Partnership company, JLP Scottish Limited Partnership provided sufficient capital to JLP Scottish Partnership to enable it to procure property assets with a market value of £150.9m from other Partnership companies. The Partnership retains control over these properties, including the flexibility to substitute alternative properties. The properties held in JLP Scottish Partnership have been leased back to John Lewis plc and Waitrose Limited.

As a partner in JLP Scottish Limited Partnership, the pension scheme is entitled to an annual share of the profits of the JLP Scottish Limited Partnership each year over 21 years. At the end of this period, the partnership capital allocated to the pension scheme will be reassessed, depending on the funding position of the pension scheme at that time, with a potential value in the range of £0.5m to £99.5m. At that point, the Partnership may be required to transfer this amount in cash to the scheme.

Under IAS 19, the investment held by the pension scheme in JLP Scottish Limited Partnership, a consolidated entity, does not represent a plan asset for the purpose of the Partnership's consolidated financial statements. Accordingly, the pension deficit position presented in these consolidated accounts does not reflect the £76.6m (2020: £73.8m) investment in JLP Scottish Limited Partnership held by the pension scheme. The distribution of JLP Scottish Limited Partnership profits to the pension scheme is reflected as pension contributions in these consolidated financial statements on a cash basis.

Notes to the consolidated financial statements (continued)

6.1 RETIREMENT BENEFITS (CONTINUED)

6.1.6 OTHER ARRANGEMENTS (CONTINUED)

John Lewis Properties plc guarantee

As part of agreeing the funding valuation in 2017, John Lewis Properties plc provided a corporate guarantee to the pension scheme. This guarantee means that if John Lewis plc fails to make any payments due to the scheme, then the pension scheme can claim against John Lewis Properties plc for those payments. As part of the guarantee, John Lewis Properties plc is required to maintain at least £760.0m of net assets.

Waitrose Limited guarantee

As part of agreeing the funding valuation in 2020, Waitrose Limited provided a corporate guarantee to the pension scheme. This guarantee means that if John Lewis plc fails to make any payments due to the scheme, then the pension scheme can claim against Waitrose Limited for those payments. There is no requirement for Waitrose Limited to maintain a minimum net asset position.

The guarantees have improved the recovery to the pension scheme in the event of insolvency of the Partnership.

Notes to the consolidated financial statements (continued)

7 FINANCIAL RISK MANAGEMENT

IN THIS SECTION

This section sets out the policies and procedures applied to manage the financial risks to which the Partnership is exposed. A breakdown of our derivative financial instruments is given here as they are used by the Partnership to manage financial volatility. An analysis of our financial assets and liabilities is also given.

7.1 MANAGEMENT OF FINANCIAL RISKS

PURPOSE

The principal financial risks that we are exposed to relate to the capital structure and long-term funding of the Partnership and also to the markets and counterparties we are exposed to in our operations. These risks can be summarised as: capital and long-term funding risk, liquidity risk, interest rate risk, foreign currency risk, credit risk and energy risk. This note details how each of these risks is managed.

7.1.1 CAPITAL AND LONG-TERM FUNDING RISK

The Partnership's objectives when managing capital are to safeguard its ability to continue as a going concern, provide returns for its Partners and to maintain a prudent level of funding. The Partnership is a long-term business, held in Trust for the benefit of its Partners. The co-ownership model means that it is not able to raise equity externally.

The Partnership's capital management strategy is to maintain a prudent capital structure, with the aim of maintaining a financial risk profile consistent with an investment grade credit rating to ensure the long-term financial sustainability of the Partnership. Although the Partnership does not have an external credit rating, it routinely monitors its capital and liquidity requirements, primarily through the Debt Ratio (see pages 11 to 12), whilst maintaining an appropriate level of liquidity (cash plus undrawn committed credit facilities) and a managed debt maturity profile to reduce refinancing risk and ensure continuity of funding. Forms of borrowing include bond issues, bank debt, assets acquired via leases, the pension deficit and Share Incentive Plan shares as part of the BonusSave scheme.

7.1.2 LIQUIDITY RISK

In line with the Partnership Board approved Treasury Standard, the Partnership is required to hold a minimum amount of liquidity, made up of a mixture of cash and undrawn committed credit facilities. Liquidity requirements are managed in line with short and long-term cash flow forecasts and reviewed against the Partnership's debt portfolio and maturity profile. Surplus cash is invested in interest bearing accounts, short-term deposits and other short-term investments with sufficient, prudent liquidity determined by the above mentioned cash flow forecasts. The Partnership actively reviews and manages its cash holdings, sources of debt and committed credit facilities. Greater emphasis has been placed on cash balances providing a material portion of the Partnership's overall liquidity, with undrawn committed credit facilities complementing these balances.

At the year-end, the Partnership had undrawn committed credit facilities of £500m (2020: £500.0m), of which £64.3m matures in November 2021, £50m matures in September 2022 and £385.7m matures in November 2022. In addition to these facilities, the Partnership had listed bonds at the year-end totalling £600.0m (2020: £600.0m), with £300.0m due to mature in 2025 and the remaining £300.0m due to mature in 2034. The bonds have fixed coupons. Bank loans totalling £150.0m were agreed during 2020/21 in addition to £125.0m of bank

Notes to the consolidated financial statements (continued)
7.1 MANAGEMENT OF FINANCIAL RISKS (CONTINUED)
7.1.2 LIQUIDITY RISK (CONTINUED)

loans already existing (2020: £125.0m), of which £75.0m matures in Q4 2021, £150.0m matures in Q4 2022 and £50.0m in Q4 2023. The loans have variable interest payments. The maturity profiles of financial debt are set out below. In May 2020 the Partnership's application to the Bank of England and HM Treasury CCFF was approved and £300m was drawn down. The CCFF was repaid in January 2021.

The Partnership's listed bonds, bank loans and committed credit facilities contain financial covenants. In April 2020 in response to the Covid-19 pandemic, the Partnership's banking group agreed to a relaxation of the financial covenant contained within the committed credit facilities. Throughout the year the Partnership maintained comfortable headroom against its covenants (for further detail see pages 57 to 60).

The following analysis shows the contractual undiscounted cash flows payable under financial liabilities and derivative financial liabilities at the balance sheet date:

	Carrying amount £m	Total contractual cash flows £m	Due within 1 year £m	Due between 1 and 2 years £m	Due 2 years and beyond £m
Non-derivative financial liabilities					
Borrowings and overdrafts	(903.5)	(908.1)	(107.8)	(150.0)	(650.3)
Interest payments on borrowings	–	(262.0)	(37.0)	(35.0)	(190.0)
Lease liabilities ¹	(2,037.3)	(3,254.8)	(211.3)	(211.7)	(2,831.8)
Trade and other payables	(1,306.5)	(1,306.5)	(1,306.4)	(0.1)	–
Derivative financial liabilities					
Derivative contracts – receipts	–	448.4	356.0	80.2	12.2
Derivative contracts – payments	–	(464.1)	(372.4)	(81.7)	(10.0)
At 30 January 2021	(4,247.3)	(5,747.1)	(1,678.9)	(398.3)	(3,669.9)

¹ The lease liabilities due 2 years and beyond can be further broken down as £(609.9)m 2-5 years, £(696.3)m 5-10 years, £(744.3)m 10-15 years and £(781.3)m 15 years and beyond.

Notes to the consolidated financial statements (continued)

7.1 MANAGEMENT OF FINANCIAL RISKS (CONTINUED)

7.1.2 LIQUIDITY RISK (CONTINUED)

	Carrying amount £m	Total contractual cash flows £m	Due within 1 year £m	Due between 1 and 2 years £m	Due 2 years and beyond £m
Non-derivative financial liabilities					
Borrowings and overdrafts	(762.6)	(769.2)	(43.1)	(75.0)	(651.1)
Interest payments on borrowings	–	(289.6)	(34.1)	(33.6)	(221.9)
Lease liabilities	(2,094.9)	(3,628.4)	(199.2)	(200.8)	(3,228.4)
Trade and other payables	(1,261.2)	(1,261.2)	(1,261.1)	(0.1)	–
Derivative financial liabilities					
Derivative contracts – receipts	–	475.4	367.1	89.9	18.4
Derivative contracts – payments	–	(493.5)	(383.0)	(93.2)	(17.3)
At 25 January 2020	(4,118.7)	(5,966.5)	(1,553.4)	(312.8)	(4,100.3)

For the purposes of this note, the foreign currency element of forward foreign currency contracts is translated at spot rates prevailing at the year-end.

7.1.3 INTEREST RATE RISK

In order to manage the risk of interest rate fluctuations on the Partnership's financial debt and cash, the Partnership targets a range of fixed and floating rate debt in line with the Partnership Board approved Treasury Standard. An analysis of the Partnership's financial liabilities is detailed below. Exposures to interest rate fluctuations are managed, when required, using interest rate derivatives. The Partnership has converted £100.0m of fixed rate debt to floating rate debt using interest rate swap contracts. The interest rate swap contracts are designated as fair value hedges and fair value movements are recognised within the income statement. Derivative financial instruments recognised as fair value hedges during the year were effective.

A fundamental reform of major interest rate benchmarks is being undertaken globally, including the replacement of GBP LIBOR with alternative risk-free rates, and the Financial Conduct Authority (FCA) has confirmed that all GBP LIBOR settings will cease after 31 December 2021. The Partnership has some exposure to Sterling LIBOR on its borrowings and financial instruments. To transition existing contracts and agreements that reference GBP LIBOR, adjustments for term differences and credit differences might need to be applied. The greatest change will be amendments to the contractual terms of GBP LIBOR-referenced floating rate debt and interest rate swaps. However, the changed reference rate will also affect other systems, processes, risk and valuation models, as well as having tax and accounting implications.

Notes to the consolidated financial statements (continued)

7.1 MANAGEMENT OF FINANCIAL RISKS (CONTINUED)

7.1.3 INTEREST RATE RISK (CONTINUED)

The Partnership has applied the following reliefs that were introduced by the amendments made to IFRS 9 Financial Instruments in September 2019:

- When considering the 'highly probable' requirement, the Partnership has assumed that the adjustments for term differences will mean that the interest rate used after the reform will be the same as if still referenced to GBP LIBOR;
- In assessing whether the hedge is expected to be highly effective on a forward-looking basis the Partnership has assumed that adjustments for term differences will mean that the interest rate on which the cash flows of the hedged debt and the interest rate swap that hedges it are based, is not altered; and
- The Partnership has not recycled the cash flow hedge reserve relating to the period after the reforms are expected to take effect.

7.1.4 FOREIGN CURRENCY RISK

The Partnership uses derivative financial instruments to manage exposures to movements in exchange rates arising from transactions with overseas-based suppliers and other organisations. Foreign exchange management committees exist for each of Waitrose and John Lewis, and they meet regularly to oversee the foreign exchange purchasing activities for each brand. Foreign currency exposures are hedged primarily using forward foreign exchange contracts covering up to 100% of forecast direct exposures on a rolling basis. Forward foreign exchange contracts used to hedge forecast currency requirements are designated as cash flow hedges with fair value movements recognised in equity. Derivative financial instruments that were designated as cash flow hedges during the year were effective. At the balance sheet date, the notional value of open forward foreign currency contracts of £425.2m (2020: £444.7m) had been entered into, to hedge purchases in foreign currencies which will mature over the next 18 months.

In addition, the Partnership purchased \$200.0m of Sterling/US dollar options and €100.0m of Sterling/Euro options, which expired in February 2020, and \$200m of Sterling/US dollar options, which expired in January 2021, in order to help manage its indirect currency risk. The indirect risk hedged is defined as the Partnership's economic exposure to the change in price of goods and services which have foreign currency input costs, but which are predominantly paid for in Sterling.

Notes to the consolidated financial statements (continued)
7.1 MANAGEMENT OF FINANCIAL RISKS (CONTINUED)

7.1.5 CREDIT RISK

The Partnership has no significant exposure to an individual customer's credit risk due to transactions being principally of a high volume, low value and short maturity. Cash deposits and other financial instruments give rise to credit risk on the amounts due from counterparties. These risks are managed by restricting such transactions to an approved list of counterparties, who have an investment grade credit rating by at least two of the three primary rating agencies. Appropriate credit limits are designated to each counterparty.

The Partnership considers its maximum exposure to credit risk is as follows:

	2021 £m	2020 £m
Trade and other receivables	103.3	142.6
Short-term investments	0.3	317.2
Cash and cash equivalents	1,518.2	598.3
Derivative financial instruments	7.3	4.9
	1,629.1	1,063.0

7.1.6 ENERGY RISK

The Partnership operates risk management processes for the energy costs associated with the Partnership's activities. The Partnership regularly reviews its pricing exposure to diesel, electricity and gas consumption and determines strategies for forward purchasing and hedging of energy costs using flexible purchase contracts and by entering into over-the-counter diesel swap contracts.

Diesel cost exposures are hedged primarily using over-the-counter diesel swaps covering up to 100% of forecast direct exposures on a rolling basis. Diesel swaps used to hedge forecast diesel requirements are designated as fair value hedges with fair value movements recognised in profit or loss. Derivative financial instruments that were designated as fair value hedges during the year were effective. At the balance sheet date, the notional value of open diesel swaps of £1.3m (2020: £1.4m) had been entered into, to hedge future purchases of diesel.

Notes to the consolidated financial statements (continued)

7.1 MANAGEMENT OF FINANCIAL RISKS (CONTINUED)

7.1.7 SENSITIVITY ANALYSIS

The following analysis illustrates the sensitivity of the Partnership's financial instruments to changes in market variables, namely UK interest rates and the US Dollar and Euro to Sterling exchange rates. The level of sensitivities chosen, being 1% movement in Sterling interest rates and a 10% movement in Sterling when compared to the US Dollar and Euro, provide a reasonable basis to measure sensitivity whilst not being the Partnership's view of what is likely to happen in the future.

The analysis excludes the impact of movements in market variables on the carrying value of pension and other provisions, which is addressed in notes 4.4 and 6.1.5.

The analysis has been prepared on the basis that the amount of net debt, the ratio of fixed to floating rate borrowings and the proportion of financial instruments in foreign currencies are constant throughout the year, based on positions as at the year-end.

The following assumptions have been made in calculating the sensitivity analysis:

- The sensitivity of interest costs to movements in interest rates is calculated using floating rate debt and investment balances prevailing at the year-end;
- Changes in the carrying value of derivative financial instruments not in hedging relationships are assumed only to affect the income statement; and
- All derivative financial instruments designated as hedges are assumed to be fully effective.

	2021		2020	
	Income statement +/- £m	Equity +/- £m	Income statement +/- £m	Equity +/- £m
UK interest rates +/- 1% (2020: +/- 1%)	9.3	–	3.5	–
US Dollar exchange rate (GBP/USD) +/- 10% (2020: +/- 10%)	–	20.0	13.3	22.7
Euro exchange rate (GBP/EUR) +/- 10% (2020: +/- 10%)	–	17.1	6.9	15.7

The Partnership's strategy for managing foreign currency risk includes the use of options. The exchange rate sensitivities above therefore include the expected increase in the value of these options should underlying exchange rates move unfavourably. However, in the event that exchange rates move favourably, the Partnership could choose not to exercise these options to benefit from associated foreign exchange gains. In this scenario, the cost of the options reflected in the income statement would be limited to the value of the premiums paid to obtain them.

7.2 DERIVATIVE FINANCIAL INSTRUMENTS AND FINANCIAL LIABILITIES

PURPOSE

We use cash flow hedges to manage the risk of adverse currency movements.

This note details the fair value of these financial instruments and financial liabilities, together with the valuation techniques and key assumptions made in determining the fair value, as required by IFRS. The fair value represents the amount that would be received from the sale of an asset or the amount that would be paid to pass on a liability.

Notes to the consolidated financial statements (continued)

7.2 DERIVATIVE FINANCIAL INSTRUMENTS AND FINANCIAL LIABILITIES (CONTINUED)

7.2.1 BASIS OF FAIR VALUE

Fair value estimation

The different levels per the IFRS 13 fair value hierarchy have been defined as follows:

Level 1: Quoted prices (unadjusted) in active markets for identical assets or liabilities.

Level 2: Inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices).

Level 3: Inputs for the asset or liability that are not based on observable market data (that is, unobservable inputs).

During the year ended 30 January 2021, there have been no transfers between any levels of the IFRS 13 fair value hierarchy and there were no reclassifications of financial assets as a result of a change in the purpose or use of those assets.

7.2.2 FAIR VALUE OF DERIVATIVE FINANCIAL INSTRUMENTS

The fair value of derivative financial instruments is as follows:

Fair value of derivative financial instruments	2021				2020			
	Assets	Liabilities	Recognised in other comprehensive income	Recognised in income statement	Assets	Liabilities	Recognised in other comprehensive income	Recognised in income statement
	£m	£m	£m	£m	£m	£m	£m	£m
Non-current								
Currency derivatives - cash flow hedge	0.1	(2.2)	(2.1)	–	0.1	(3.0)	(2.9)	–
Other derivatives	–	(0.5)	–	(0.5)	–	(0.9)	–	(0.9)
	0.1	(2.7)	(2.1)	(0.5)	0.1	(3.9)	(2.9)	(0.9)
Current								
Currency derivatives - cash flow hedge	3.0	(19.7)	(16.7)	–	2.0	(18.2)	(16.2)	–
Other derivatives	4.2	(1.2)	–	3.0	2.8	(0.5)	–	2.3
	7.2	(20.9)	(16.7)	3.0	4.8	(18.7)	(16.2)	2.3

The fair value of a derivative financial instrument represents the difference between the value of the outstanding contracts at their contracted rates and a valuation calculated using the forward rates of exchange and interest rates prevailing at the balance sheet date.

The fair value of the derivative financial instruments held by the Partnership are classified as level 2 under the IFRS 13 fair value hierarchy, as all significant inputs to the valuation model used are based on observable market data and are not traded in an active market.

Specific valuation techniques used to value the financial instruments include quoted market prices. There have been no changes in valuation techniques from the prior year.

Notes to the consolidated financial statements (continued)

7.2 DERIVATIVE FINANCIAL INSTRUMENTS AND FINANCIAL LIABILITIES (CONTINUED)

7.2.3 FAIR VALUE OF FINANCIAL ASSETS AND LIABILITIES HELD AT AMORTISED COST

The following table compares the Partnership's liabilities held at amortised cost, where there is a difference between carrying value (CV) and fair value (FV):

	2021 £m		2020 £m	
	CV	FV	CV	FV
Financial liabilities				
Listed bonds	(591.2)	(641.5)	(590.6)	(645.7)

The fair values of the Partnership's listed bonds have been determined by reference to market price quotations and are classified as level 1 under the IFRS 13 fair value hierarchy.

For other financial assets and liabilities, there are no material differences between carrying value and fair value.

7.3 ANALYSIS OF FINANCIAL ASSETS AND LIABILITIES

PURPOSE

This note sets out the currency exposure of our financial assets and liabilities. The currency analysis details the amount of financial assets, primarily cash and cash equivalents, and financial liabilities, held in Sterling or other currencies, together with the amounts at floating or fixed interest rates. The maturity analysis provides an indication of repayment phasing for the financial liabilities.

7.3.1 ANALYSIS OF FINANCIAL ASSETS

Short-term trade and other receivables and derivative financial assets are excluded from this analysis, on the basis that they are primarily non-interest bearing and denominated in Sterling.

	Floating rate £m	Non-interest bearing £m	Total £m
Currency analysis			
Sterling financial assets	1,410.0	108.2	1,518.2
Other financial assets	0.3	–	0.3
At 30 January 2021	1,410.3	108.2	1,518.5
Sterling financial assets	823.9	91.2	915.1
Other financial assets	0.4	–	0.4
At 25 January 2020	824.3	91.2	915.5

Floating rate assets are short-term deposits and investments at market rates or the base rate of the relevant currency. Non-interest bearing balances include cash in shops and cash in transit, primarily made up of credit and debit card transactions not yet settled.

Notes to the consolidated financial statements (continued)

7.3 ANALYSIS OF FINANCIAL ASSETS AND LIABILITIES (CONTINUED)

7.3.2 ANALYSIS OF FINANCIAL LIABILITIES

Short-term trade payables are excluded from this analysis on the basis that they are all non-interest bearing.

Currency analysis	Fixed rate £m	Floating rate £m	Total £m
All Sterling			
At 30 January 2021	(2,529.4)	(407.2)	(2,936.6)
At 25 January 2020	(2,586.0)	(268.7)	(2,854.7)

Notes to the consolidated financial statements (continued)

8 OTHER NOTES

IN THIS SECTION

This section includes other financial information that is required by accounting standards.

8.1 SHARE CAPITAL

PURPOSE

Share capital consists of ordinary shares. It is measured as the number of shares issued and fully paid, multiplied by their nominal value.

	2021		2020	
	Authorised £m	Issued and fully paid £m	Authorised £m	Issued and fully paid £m
Share capital				
Equity				
Deferred ordinary shares				
612,000 of £1 each	0.6	0.6	0.6	0.6

The deferred ordinary shares rank in all respects as equity shares except that each share has 1,000 votes in a vote taken on a poll.

The deferred ordinary shares are held by John Lewis Partnership Trust Limited in trust for the benefit of Partners. Ultimate control rests with John Lewis Partnership Trust Limited.

8.2 RELATED PARTY TRANSACTIONS

PURPOSE

Two or more parties are considered to be related if one party has direct or indirect control or significant influence over financial or operating policies of the other party. We have a number of related parties with whom we transact, including the Pension Scheme Trustee, key management personnel and certain related charities. We are required by IFRS to detail the transactions made in the year with related parties to draw attention to the possibility that our financial position and results may have been affected by them. This disclosure allows us to demonstrate that we are transacting fairly with all our related parties.

8.2.1 SUBSIDIARIES AND RELATED UNDERTAKINGS

All transactions between the Partnership and its subsidiaries and related undertakings are eliminated upon consolidation, and therefore do not need to be disclosed separately. A list of subsidiaries and related undertakings within the Partnership is included within note 16. Loans to joint ventures are disclosed in note 3.3.

8.2.2 ARRANGEMENTS WITH PENSION SCHEME TRUSTEE

The Partnership entered into an arrangement with the Pension Scheme Trustee on 30 January 2010 to address an element of the scheme deficit that existed at that time.

Notes to the consolidated financial statements (continued)

8.2 RELATED PARTY TRANSACTIONS (CONTINUED)

8.2.3 OTHER TRANSACTIONS

Key management compensation has been disclosed in note 2.8.3.

During the year the Partnership provided administrative support services to charities related to the Partnership. The estimated value of these support services is £86,000 (2020: £90,000). The Partnership also made donations totalling £0.4m (2020: £0.7m) to the John Lewis & Partners Foundation.

8.3 SUBSEQUENT EVENTS

PURPOSE

Events that take place after the balance sheet date of 30 January 2021 and before the date the financial statements are signed are recorded in this note. In order to be disclosed, these events must be sufficiently material to warrant disclosure.

As part of our plan to reshape our store estate over the five years of the Partnership Plan, on 24 March 2021, John Lewis informed Partners that eight shops are proposed for closure and would not reopen alongside the rest of our estate. The stores impacted are Aberdeen, Ashford, Basingstoke, Chester, Peterborough, Sheffield, Tunbridge Wells, and York. As a result 1,465 Partners have been put at risk of redundancy. No accounting for potential redundancies or exit costs was recorded for the year ended 30 January 2021 in respect of these shop closures on the basis that both the Partnership Board decision and the announcement to Partners were after the year-end. For the leasehold properties, negotiations with landlords to exit the leases are ongoing and at this stage it is not possible to estimate any financial liability arising. Across the eight shops, only £8.7m in respect of PPE assets remains on the balance sheet after consideration of the 2020/21 impairment provision.

Additionally on 24 March 2021, we confirmed that we have reached an agreement with XPO Logistics to operate our Waitrose distribution centre in Leyland, Lancashire, on our behalf. As a result, 436 Waitrose Partners will transfer to XPO under the Transfer of Undertakings Protection of Employment (TUPE) regulations.

COMPANY FINANCIAL STATEMENTS

COMPANY BALANCE SHEET

as at 30 January 2021

A financial snapshot of the Company, showing our assets and how they are financed.

Notes		2021 £m	2020 £m
Non-current assets			
11	Investments	123.1	123.0
Total assets		123.1	123.0
Current liabilities			
13	Trade and other payables	(0.3)	(1.2)
Non-current liabilities			
12	Borrowings	(104.2)	(104.2)
Total liabilities		(104.5)	(105.4)
Net assets		18.6	17.6
Equity			
14	Share capital	0.6	0.6
	Capital redemption reserve	5.0	5.0
	Retained earnings	13.0	12.0
Total equity		18.6	17.6

The financial statements on pages 199 to 204 were approved by the Board of Directors on 21 April 2021 and signed on its behalf by Sharon White and Bérangère Michel, Directors, John Lewis Partnership plc.




Sharon White and Bérangère Michel

Directors, John Lewis Partnership plc

Registered number 00238937

The accompanying notes are an integral part of the financial statements.

COMPANY STATEMENT OF CHANGES IN EQUITY

for the year ended 30 January 2021

Notes	Share capital £m	Capital redemption reserve £m	Retained earnings £m	Total equity £m
Balance at 26 January 2019	0.6	5.0	11.3	16.9
10 Profit for the year and total comprehensive income	–	–	0.7	0.7
Balance at 25 January 2020	0.6	5.0	12.0	17.6
10 Profit for the year and total comprehensive income	–	–	1.0	1.0
Balance at 30 January 2021	0.6	5.0	13.0	18.6

The accompanying notes are an integral part of the financial statements.

Notes to the company financial statements

9 ACCOUNTING POLICIES

PURPOSE

John Lewis Partnership plc (the Company) prepares its accounts in accordance with international accounting standards in conformity with the requirements of the Companies Act 2006, and in compliance with International Financial Reporting Standards (IFRS) and IFRS Interpretations Committee interpretations as adopted pursuant to Regulation (EC) No 1606/2002 as it applies in the European Union (IFRSs as adopted by the EU). Below we set out significant accounting policies applied by the Company in the current reporting period where they are different, or additional, to those used by the Partnership. The accounting policies are set in line with the requirements of IFRS and there have been no changes in accounting policies during the year other than those set out under 'Amendments to accounting standards' in note 1 to the Partnership's consolidated financial statements.

Basis of preparation

The separate financial statements of the Company are drawn up in accordance with international accounting standards in conformity with the requirements of the Companies Act 2006, and in compliance with International Financial Reporting Standards (IFRS) and IFRS Interpretations Committee interpretations as adopted pursuant to Regulation (EC) No 1606/2002 as it applies in the European Union (IFRSs as adopted by the EU). The Company's accounting policies are aligned with the Partnership's accounting policies as described in note 1 to the Partnership's consolidated financial statements. Additional accounting policies are noted below.

John Lewis plc settles transactions on behalf of John Lewis Partnership plc for administrative convenience, including amounts in respect of subscription for BonusSave, dividend payments and amounts owed to tax authorities. The settlement of these transactions is reflected in the intercompany loan. As a result, no cash flows through John Lewis Partnership plc and no cash is generated from its operations, so a Company cash flow statement is not required.

Going concern

In determining the appropriate basis of preparation of the financial statements for the year ended 30 January 2021, the Directors are required to consider whether the Company can continue in operational existence for a period of at least 12 months from the approval of the financial statements.

The Directors have concluded that it is appropriate to adopt the going concern basis, having undertaken a rigorous assessment of the financial forecasts with specific consideration to the Company in the context of

Notes to the company financial statements (continued)

9 ACCOUNTING POLICIES (CONTINUED)

the current Covid-19 pandemic in the UK, for the reasons set out in note 1.1.1. Consequently, the Directors have concluded that the Company will have sufficient funds to continue to meet its liabilities as they fall due for at least 12 months from the date of approval of the financial statements and therefore have prepared the financial statements on a going concern basis.

Investment in subsidiary undertakings

The Partnership has a number of investments in subsidiary companies. Investments are valued at cost, less allowances for impairment. Impairment reviews are performed annually.

10 PROFIT AND LOSS OF THE COMPANY FOR THE YEAR

PURPOSE

The Company is exempt from disclosing a full income statement as allowed by the Companies Act 2006, therefore the profit for the Company for the year is disclosed within this note.

As permitted by Section 408 of the Companies Act 2006, John Lewis Partnership plc has not presented its own income statement or statement of comprehensive income/(expense). The result dealt with in the accounts of the Company amounted to £1.0m profit (2020: £0.7m profit).

Details of auditor's remuneration are provided in note 2.6 to the Partnership's consolidated financial statements.

11 INVESTMENTS

PURPOSE

This note sets out the value of the shares owned or amounts loaned to subsidiary companies directly invested in by the Company, which, together with their own subsidiaries, consolidate to form the Partnership.

The Company has the following investments at 30 January 2021:

	Subsidiary		Other	Total
	Shares in John Lewis plc	Loan to John Lewis plc	Shares in John Lewis Partnership Trust Limited	
Investments	£m	£m	£m	£m
At 25 January 2020	11.3	111.6	0.1	123.0
Movements	–	0.1	–	0.1
At 30 January 2021	11.3	111.7	0.1	123.1

The intercompany loan from the Company to John Lewis plc is non-interest bearing with no specific repayment terms.

Notes to the company financial statements (continued)

12 BORROWINGS

PURPOSE

Borrowings consist of long-term loans from Partnership companies in respect of Share Incentive Plan shares, which are allocated to Partners who are entitled to a dividend.

	2021 £m	2020 £m
Borrowings		
Non-current:		
Loans from Partnership companies	(104.2)	(104.2)
	(104.2)	(104.2)

13 TRADE AND OTHER PAYABLES

PURPOSE

Trade and other payables include amounts we owe in respect of BonusSave dividends, and to HMRC in the form of taxes.

	2021 £m	2020 £m
Trade and other payables		
Other payables	(0.3)	(1.2)

All of the Company's trade and other payables are current. The carrying amount of trade and other payables approximates to fair value.

14 SHARE CAPITAL

PURPOSE

Share capital consists of ordinary shares and is measured as the number of shares issued and fully paid multiplied by their nominal value.

	2021		2020	
	Authorised £m	Issued and fully paid £m	Authorised £m	Issued and fully paid £m
Share capital				
Equity				
Deferred ordinary shares				
612,000 of £1 each	0.6	0.6	0.6	0.6

The deferred ordinary shares rank in all respects as equity shares except that each share has 1,000 votes in a vote taken on a poll.

The deferred ordinary shares are held by John Lewis Partnership Trust Limited in Trust for the benefit of Partners. Ultimate control rests with John Lewis Partnership Trust Limited.

Notes to the company financial statements (continued)

15 RELATED PARTY TRANSACTIONS

PURPOSE

Two or more parties are considered to be related if one party has direct or indirect control or significant influence over financial or operating policies of the other party. We have a number of related parties with whom we transact, including the Pension Scheme Trustee. We are required by IFRS to detail the transactions made in the year with related parties to draw attention to the possibility that our financial position and results may have been affected by them. This disclosure allows us to demonstrate that we are transacting fairly with all our related parties.

15.1 LOAN TO JOHN LEWIS PLC

The loan to John Lewis plc has been disclosed in note 11.

15.2 OTHER TRANSACTIONS

Arrangements with the Pension Scheme Trustee are disclosed within note 8.2 to the Partnership's consolidated financial statements.

16 SUBSIDIARIES AND RELATED UNDERTAKINGS

The Company has a number of subsidiaries which contribute to the overall profitability of the Partnership. In accordance with section 409 of the Companies Act 2006 and Schedule 4 of The Large and Medium-Sized Companies and Groups (Accounts and Reports) Regulations 2008, a full list of related undertakings, registered office addresses and the percentages of share class owned as at 30 January 2021 are disclosed below.

The Company's only direct 100% owned subsidiary as at 30 January 2021 was:

Name	Principal activity	Country of incorporation	Class of share	Percentage shareholdings
John Lewis plc	Retailing and corporate services	England & Wales ¹	Ordinary	100%

¹ The address of the registered office is 171 Victoria Street, London SW1E 5NN.

The whole of the ordinary share capital of the subsidiary undertakings of John Lewis plc as shown on the next page is held within the Partnership. Except where noted, all of these subsidiary undertakings operate wholly or mainly in the United Kingdom.

The Partnership has taken advantage of the exemption conferred by regulation 7 of the Partnerships (Accounts) Regulations 2008 and has not appended the accounts of JLP Scottish Partnership and JLP Scottish Limited Partnership. Separate accounts for these partnerships are not required to be filed with the Registrar of Companies.

Notes to the company financial statements (continued)

16 SUBSIDIARIES AND RELATED UNDERTAKINGS (CONTINUED)

Subsidiary and related undertakings of John Lewis plc:

Name	Principal activity	Country of incorporation	Class of share	Percentage shareholdings
Admiral Park Retail Management Limited	Property holding company	Guernsey ¹	Ordinary	54%
Buy.Com Limited	Dormant	England & Wales ²	Ordinary	100%
Carlisle Place Ventures Limited	Home services	England & Wales ²	Ordinary	100%
Clicklink Logistics Limited	Joint venture	England & Wales ³	Ordinary	50%
Herbert Parkinson Limited	Manufacturing and making up	England & Wales ²	Ordinary	100%
JLP Insurance Limited	Insurance	Guernsey ⁴	Ordinary	100%
JLP Scotland Limited	Non-trading	Scotland ⁵	Ordinary	100%
JLP Scottish Limited Partnership ⁽ⁱ⁾	Investment holding undertaking	Scotland ⁶	Partnership interest	100%
JLP Scottish Partnership ⁽ⁱⁱ⁾	Investment holding undertaking	Scotland ⁶	Partnership interest	100%
John Lewis Car Finance Limited	Car finance	England & Wales ²	Ordinary	100%
John Lewis Hong Kong Limited	Sourcing company	Hong Kong ⁷	Ordinary	100%
John Lewis India Private Limited	Sourcing company	India ⁸	Ordinary	100%
John Lewis International Limited	International retail	England & Wales ²	Ordinary	100%
John Lewis Partnership Pensions Trust	Non-trading	England & Wales ²	Ordinary	100%
John Lewis Properties plc	Property holding company	England & Wales ²	Ordinary	100%
John Lewis PT Holdings Limited	Holding company	England & Wales ²	Ordinary	100%
Jonelle Jewellery Limited	Dormant	England & Wales ²	Ordinary	100%
Jonelle Limited	Dormant	England & Wales ²	Ordinary	100%
Park One Management Limited	Provision of management services	England & Wales ⁹	Ordinary	37%
Peter Jones Limited	Dormant	England & Wales ²	Ordinary	100%
The Odney Estate Limited	Dormant	England & Wales ²	Ordinary	100%
Waitrose (Jersey) Limited	Food retailing	Jersey ¹⁰	Ordinary	100%
Waitrose (Guernsey) Limited	Food retailing	Guernsey ¹	Ordinary	100%
Waitrose Limited	Food retailing	England & Wales ²	Ordinary	100%

1 The address of the registered office is PO Box 119 Martello Court, Admiral Park, St Peter Port, Guernsey, GY1 3HB.

2 The address of the registered office is 171 Victoria Street, London SW1E 5NN.

3 The address of the registered office is Clipper Logistics Group, Gelderd Road, Leeds, West Yorkshire LS12 6LT.

4 The address of the registered office is PO Box 155 Mill Court, La Charroterie, St Peter Port, Guernsey GY1 4ET.

5 The address of the registered office is John Lewis Aberdeen, George Street, Aberdeen AB25 1BW.

6 The address of the registered office is John Lewis, 60 Leith Street, Edinburgh EH1 3SP.

7 The address of the registered office is Suite 3201, Jardine House, 1 Connaught Place, Central, Hong Kong.

8 The address of the registered office is 3rd Floor, Tower B, Signature Towers, South City, Sector - 30, Gurgaon, Haryana, India, 122001

9 The address of the registered office is Number 22 Mount Ephraim, Tunbridge Wells, Kent TN4 8AS.

10 The address of the registered office is 44 Esplanade, St Helier, Jersey JE4 9WVG.

(i) John Lewis Partnership Pensions Trust and JLP Scotland Limited are the Limited Partners. John Lewis plc is the General Partner.

(ii) JLP Scottish Limited Partnership and John Lewis Properties plc are the General Partners.

STATEMENT OF DIRECTORS' RESPONSIBILITIES IN RESPECT OF THE ANNUAL REPORT AND ACCOUNTS

The Directors are responsible for preparing the Partnership and parent Company financial statements in accordance with applicable law and regulations.

Company law requires the Directors to prepare Partnership and parent Company financial statements for each financial year. Under that law they are required to prepare the Partnership financial statements in accordance with international accounting standards in conformity with the requirements of the Companies Act 2006 and applicable law and have elected to prepare the Parent Company financial statements in accordance with UK Accounting Standards, including FRS 101 Reduced Disclosure Framework.

Under company law the Directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Partnership and parent Company and of their profit or loss for that period. In preparing each of the Partnership and parent Company financial statements, the Directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable, relevant and reliable;
- for the Partnership financial statements, state whether they have been prepared in accordance with international accounting standards in conformity with the requirements of the Companies Act 2006 and International Financial Reporting Standards adopted pursuant to Regulation (EC) No 1606/2002 as it applies in the European Union (IFRSs as adopted by the EU);
- assess the Partnership and parent Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern; and
- use the going concern basis of accounting unless they either intend to liquidate the Partnership or the parent Company or to cease operations, or have no realistic alternative but to do so.

The Directors are responsible for keeping adequate accounting records that are sufficient to show and explain the parent Company's transactions and disclose with reasonable accuracy at any time the financial position of the parent Company and enable them to ensure that its financial statements comply with the Companies Act 2006. They are responsible for such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error, and have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the Partnership and to prevent and detect fraud and other irregularities.

The Directors are responsible for the maintenance and integrity of the corporate and financial information included on the Company's website. Legislation in the UK governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

On behalf of the Board.



Sharon White and Bérangère Michel
Directors, John Lewis Partnership plc
21 April 2021

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF JOHN LEWIS PARTNERSHIP PLC

1. Our opinion is unmodified

We have audited the financial statements of John Lewis Partnership plc ("the Company") for the year ended 30 January 2021 which comprise the consolidated income statement, consolidated statement of comprehensive income, consolidated balance sheet, consolidated statement of changes in equity, consolidated statement of cash flows, Company balance sheet, Company statement of changes in equity, Company statement of cash flows, and the related notes, including the accounting policies in note 1.

In our opinion:

- the financial statements give a true and fair view of the state of the Group's and of the parent Company's affairs as at 30 January 2021 and of the Group's loss for the year then ended;
- the Group financial statements have been properly prepared in accordance with international accounting standards in conformity with the requirements of the Companies Act 2006 and International Financial Reporting Standards adopted pursuant to Regulation (EC) No 1606/2002 as it applies in the European Union ("IFRSs as adopted by the EU");
- the parent Company financial statements have been properly prepared in accordance with international accounting standards in conformity with the requirements of, and as applied in accordance with the provisions of, the Companies Act 2006; and
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) ("ISAs (UK)") and applicable law. Our responsibilities are described below. We believe that the audit evidence we have obtained is a sufficient and appropriate basis for our opinion. Our audit opinion is consistent with our report to the Audit and Risk Committee.

We were first appointed as auditor by the shareholders on 8 June 2016. The period of total uninterrupted engagement is for the five financial years ended 30 January 2021. We have fulfilled our ethical responsibilities under, and we remain independent of the Group in accordance with, UK ethical requirements including the FRC Ethical Standard as applied to public interest entities. No non-audit services prohibited by that standard were provided.

2. Key audit matters: our assessment of risks of material misstatement

Key audit matters are those matters that, in our professional judgement, were of most significance in the audit of the financial statements and include the most significant assessed risks of material misstatement (whether or not due to fraud) identified by us, including those which had the greatest effect on: the overall audit strategy; the allocation of resources in the audit; and directing the efforts of the engagement team. We summarise below the key audit matters, in decreasing order of audit significance, in arriving at our audit opinion above, together with our key audit procedures to address those matters and, as required for public interest entities, our results from those procedures. These matters were addressed, and our results are based on procedures undertaken, in the context of, and solely for the purpose of, our audit of the financial statements as a whole, and in forming our opinion thereon, and consequently are incidental to that opinion, and we do not provide a separate opinion on these matters.

**INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF JOHN LEWIS
PARTNERSHIP PLC (CONTINUED)**

	The risk	Our response
<p>Going concern</p> <p><i>Refer to pages 49 to 566(principal risks), pages 57 to 60 (viability statement) and pages 80 to 81 (Audit and Risk Committee report)</i></p>	<p>Disclosure quality</p> <p>The financial statements explain how the Board has formed a judgement that it is appropriate to adopt the going concern basis of preparation for the Partnership and parent company.</p> <p>That judgement is based on an evaluation of the inherent risks to the Partnership's and Company's business model and how those risks might affect the Partnership's and Company's financial resources or ability to continue operations over a period of at least a year from the date of approval of the financial statements.</p> <p>The risks most likely to adversely affect the Partnership's and Company's available financial resources over this period were:</p> <ul style="list-style-type: none"> - The impact of Covid-19 on sales, profitability and cash flow based on a weaker UK economy and consumer confidence, in particular due to John Lewis branches being closed for an extended period of time, potential disruption to John Lewis' online business, the potential for reduced store and online trading for the remainder of the financial year, and the potential disruption to the grocery supply chain. 	<p>We considered whether these risks could plausibly affect the liquidity or covenant compliance in the going concern period by assessing the directors' sensitivities over the level of available financial resources and covenant thresholds indicated by the Partnership's financial forecasts taking account of severe, but plausible, adverse effects that could arise from these risks individually and collectively.</p> <p>Our procedures also included:</p> <ul style="list-style-type: none"> - Test of details: Evaluated the mathematical accuracy of the models the Directors used in its assessment; - Test of details: Evaluated whether the assumptions were realistic, achievable and consistent with the external environment and other matters identified in the audit; - Sensitivity analysis: We considered sensitivities over the level of available financial resources indicated by the Partnership's financial forecasts taking account of reasonably possible (but not unrealistic) adverse effects that could arise from these risks individually and collectively; - Test of details: Evaluated management's assessment of the entity's compliance with debt covenants;

**INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF JOHN LEWIS
PARTNERSHIP PLC (CONTINUED)**

	The risk	Our response
Going concern (continued)	<p>The risk for our audit was whether or not those risks were such that they amounted to a material uncertainty that may have cast significant doubt about the ability to continue as a going concern. Had they been such, then that fact would have been required to have been disclosed.</p>	<ul style="list-style-type: none"> - Historical comparisons: Considered the historical accuracy of the Partnership's cash flow forecasts and growth rates by assessing the accuracy of previous forecasts made by the Partnership against actual performance; - Evaluating directors' intent: Evaluated the achievability of the actions the Directors consider they would take to improve the position should the risks materialise, which include reducing capital and investment expenditure and reduced marketing spend, taking into account the extent to which the Directors can control the timing and outcome of these. - Assessing transparency: Assessing the reasonableness of the going concern disclosure. <p>Our results</p> <p>We found the going concern disclosure without any material uncertainty to be acceptable (2020: acceptable).</p>

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF JOHN LEWIS PARTNERSHIP PLC (CONTINUED)

	The risk	Our response
<p>Impairment of property, plant and equipment and right-of-use assets</p> <p>£791.4 million of the total PPE and ROUA of £4,523.7 million (2020: £1,151.3 million of the total PPE and ROUA of £5,390.3 million)</p> <p><i>Pages 156 to 157 (accounting policy) and page 157 to 161 (financial disclosures)</i></p>	<p>The Partnership has significant property, plant and equipment (PPE) and right-of-use assets (ROUAs) held on the consolidated balance sheet. In the year an impairment charge of £525.7 million was recognised, predominantly in relation to John Lewis PPE and ROUAs.</p> <p>There is a risk that the carrying value of stores and related PPE and ROUAs may be higher than the recoverable amount. Where a review for impairment, or reversal of impairment, is conducted, the recoverable amount is determined based on the higher of 'value-in-use' (VIU) or 'fair value less costs of disposal'.</p> <p>The recoverable amount was assessed for £791.4 million of the total PPE and ROUA net book value (2020: £1,151.3 million) and identified as supported by VIU calculations. This estimated recoverable amount is subjective due to the inherent uncertainty involved in forecasting and discounting future cash flows and could be manipulated to yield a specific outcome. The key assumptions used in the VIU calculations for estimating the recoverable amount are expected sales and costs in the short-term cash-flow forecasts, the long-term growth rate, the discount rate and specifically for John Lewis, the online allocation.</p>	<p>Our procedures included:</p> <ul style="list-style-type: none"> - Re-performance: We re-performed the calculations the Directors performed for determining the VIU of each cash generating unit and compared data used in the model against source information, where applicable. - Our sector experience: We evaluated assumptions used, in particular those relating to forecast revenue growth and profit margins for each Waitrose and John Lewis branch. We also challenged the Directors as to the achievability of their forecasts and business plans, taking into account the historical accuracy of previous forecasts. - Benchmarking assumptions: We compared the director's assumptions to externally derived data in relation to key inputs such as projected economic growth, cost inflation and discount rates. - Sensitivity analysis: We performed sensitivity analysis to stress-test the assumptions noted above. - Assessing disclosures: We also assessed whether the Partnership's disclosures about the sensitivity of the outcome of the impairment assessment to changes in key assumptions reflected the risks inherent in the carrying amount of PPE and ROUAs.

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF JOHN LEWIS PARTNERSHIP PLC (CONTINUED)

	The risk	Our response
Impairment of property, plant and equipment and right-of-use assets (continued)	<p>The effect of these matters is that, as part of our risk assessment for audit planning purposes, we determined that the VIU had a high degree of estimation uncertainty, with a potential range of reasonable outcomes greater than our materiality for the financial statements as a whole. The financial statements (note 3.2) disclose the sensitivities estimated by the Partnership.</p>	<p>Our results</p> <p>We found the resulting estimate of recoverable amount of PPE and ROUAs to be acceptable (2020: acceptable).</p>
<p>Net defined benefit obligation</p> <p>£646.9 million (2020: £417.4 million)</p> <p><i>Refer to pages 176 to 177 (accounting policy) and pages 177 to 187 (financial disclosures)</i></p>	<p>Subjective valuation</p> <p>A significant level of estimation is required in order to determine the valuation of the gross liability. Small changes in the key assumptions (in particular, discount rates, inflation and mortality rates) can have a material impact on the gross liability.</p> <p>In addition, within the Partnership's pension asset portfolio are a number of assets whose valuation require significant judgement as a result of quoted prices being unavailable (level 3 assets). These holdings together represented 28.6% (£1,942.9 million) of the total pension assets held. The asset classes where significant audit effort and judgement was focused were investment properties, special purpose investment vehicles and private equity investments.</p>	<p>Our procedures included:</p> <ul style="list-style-type: none"> - Benchmarking assumptions: We used our actuarial specialists to challenge the key assumptions (in particular, the discount rate and inflation and mortality rates). This involved comparing the assumption to available market data, our expectation and to other similar UK pension schemes' assumptions; - Assessing base data: We used our actuarial specialists to challenge the methodology used to roll-forward the results of the triennial valuation as at 31 March 2019;

**INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF JOHN LEWIS
PARTNERSHIP PLC (CONTINUED)**

	The risk	Our response
Net defined benefit obligation (continued)	<p>The effect of these matters is that, as part of our risk assessment, we determined that the valuation of the gross defined benefit obligation and level 3 pension assets has a high degree of estimation uncertainty, with a potential range of reasonable outcomes greater than our materiality for the financial statements as a whole. The financial statements (note 6.1.5) disclose the sensitivity estimated by the Partnership.</p>	<ul style="list-style-type: none"> - Our valuation expertise: For hard-to-value plan assets, we used our own property valuation specialist to assess the key inputs and assumptions used by external valuers by reference to our own market and industry benchmarks. For private equity funds and special purpose vehicles, we obtained direct confirmations and assessed historical accuracy of valuations to help inform whether current valuations were appropriate; - Methodology choice: We have assessed the pricing model methodologies used with reference to the Royal Institute of Chartered Surveyors for property and the International Private Equity and Venture Capital Valuation guidance for private equity funds included in plan assets; - Assessing disclosures: We also considered the adequacy of the Partnership's disclosures in respect of the sensitivity of the net deficit to these assumptions. <p>Our results</p> <p>We found the valuation of the gross defined pension obligation and level 3 assets to be acceptable (2020: acceptable).</p>

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF JOHN LEWIS PARTNERSHIP PLC (CONTINUED)

	The risk	Our response
<p>Long leave provision</p> <p>£150.7 million (2020: £153.5 million)</p> <p><i>Refer to page 167 (accounting policies) and pages 167 to 168 (financial disclosures)</i></p>	<p>Subjective estimate</p> <p>The Partnership has a long leave scheme, open to all Partners, which provides up to six months' paid leave after 25 years' service. The basis of the calculation of the liability is based upon a significant level of estimation and judgement. Small changes in the key assumptions, for example the discount rate, staff turnover and salary increases can have a material impact on the liability.</p> <p>The effect of these matters is that, as part of our risk assessment, we determined that the valuation of the long leave liability has a high degree of estimation uncertainty, with a potential range of reasonable outcomes greater than our materiality for the financial statements as a whole. In conducting our final audit work, we reassessed the degree of estimation uncertainty to be less than that materiality.</p>	<p>Our procedures included:</p> <p>-Benchmark assumptions: We used our own actuarial specialists to consider the key assumptions used. This involved comparing the assumptions used such as the discount rate, RPI inflation rate and salary increases to available market data and our expected range;</p> <p>- Sensitivity analysis: We performed sensitivity analysis over these assumptions.</p> <p>Our results</p> <p>From the evidence obtained, we considered the level of provisioning to be acceptable (2020: acceptable).</p>

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF JOHN LEWIS PARTNERSHIP PLC (CONTINUED)

3. Our application of materiality and an overview of the scope of our audit

Materiality for the Partnership financial statements as a whole was set at £13.7 million, determined with reference to a benchmark of Partnership revenue (as disclosed in note 2.2), of £10,771.8 million, of which it represents 0.13% (2020: 0.13%).

Materiality for the parent company financial statements as a whole was set at £3.7 million (2020: £3.7 million), determined with reference to a benchmark of Company total assets of £123.1 million, of which it represents 3.0% (2020: 3.0%).

We agreed to report to the Audit and Risk Committee any corrected or uncorrected identified misstatements exceeding £0.7 million, in addition to other identified misstatements that warranted reporting on qualitative grounds.

Of the Partnership's 18 (2020: 18) reporting components, we subjected 6 (2020: 6) to full scope audits for Partnership purposes. In addition, 1 component (2020: 1) was subjected to specified risk-focused audit procedures. The latter was not individually significant enough to require a full scope audit for Partnership purposes but did present specific individual risks that needed to be addressed over a liability balance.

The components within the scope of our work accounted for the following percentages; 98% of Partnership revenue (2020: 99%), 86% of Partnership total assets (2020: 93%) and 87% of Partnership profit before tax (2020: 79%). The remaining 2% of Partnership revenue, 14% of Partnership total assets and 13% of Partnership profit before tax is represented by 11 reporting components, none of which individually represented more than 1% of any Partnership revenue, Partnership total assets or Partnership profit before tax. For these residual components, we performed analysis at an aggregated Partnership level to re-examine our assessment that there were no significant risks of material misstatement within these.

The Group team instructed component auditors as to the significant areas to be covered, including the relevant risks detailed above and the information to be reported back. The Group team approved the component materialities, which ranged from £3.0 million to £13.5 million, having regard to the mix of size and risk profile of the Partnership across the components. The work on 1 of the 7 components (2020: 1 of the 7 components) was performed by component auditors and the rest, including the audit of the parent company, was performed by the Group team.

4. We have nothing to report on going concern

The directors have prepared the financial statements on the going concern basis as they do not intend to liquidate the Partnership or the Company or to cease their operations, and as they have concluded that the Partnership's and the Company's financial position means that this is realistic. They have also concluded that there are no material uncertainties that could have cast significant doubt over their ability to continue as a going concern for at least a year from the date of approval of the financial statements ("the going concern period").

An explanation of how we evaluated management's assessment of going concern is set out in the related key audit matter in section 2 of this report.

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF JOHN LEWIS PARTNERSHIP PLC (CONTINUED)

Our conclusions based on this work:

- we consider that the directors' use of the going concern basis of accounting in the preparation of the financial statements is appropriate;
- we have not identified, and concur with the directors' assessment that there is not, a material uncertainty related to events or conditions that, individually or collectively, may cast significant doubt on the Partnership's or Company's ability to continue as a going concern for the going concern period; and
- we found the going concern disclosure in note 1 to be acceptable.

However, as we cannot predict all future events or conditions and as subsequent events may result in outcomes that are inconsistent with judgements that were reasonable at the time they were made, the above conclusions are not a guarantee that the Partnership or the Company will continue in operation.

5. Fraud and breaches of laws and regulations – ability to detect

Identifying and responding to risks of material misstatement due to fraud

To identify risks of material misstatement due to fraud ("fraud risks") we assessed events or conditions that could indicate an incentive or pressure to commit fraud or provide an opportunity to commit fraud. Our risk assessment procedures included:

- Enquiring of directors, the audit and risk committee, internal audit, legal counsel and inspection of policy documentation as to the Partnership's high-level policies and procedures to prevent and detect fraud, including the internal audit function, and the Partnership's channel for "whistleblowing", as well as whether they have knowledge of any actual, suspected or alleged fraud.
- Reading Board, Audit and Risk Committee and Remuneration Committee meeting minutes.
- Using analytical procedures to identify any unusual or unexpected relationships.

We communicated identified fraud risks throughout the audit team and remained alert to any indications of fraud throughout the audit.

As required by auditing standards, we performed procedures to address the risk of management override of controls, in particular the risk that Partnership management may be in a position to make inappropriate accounting entries and the risk of bias in accounting estimates and judgements such as impairment, long leave provision assumptions and pension assumptions. On this audit we do not believe there is a fraud risk related to revenue recognition because there is limited perceived pressure on management to achieve an expected revenue target and limited opportunity to commit fraud.

We also identified a fraud risk related to the calculation of impairment in response to increased forecast risk as a result of Covid-19 leading to opportunity to manipulate assumptions. Further detail in respect of this is set out in the key audit matter disclosures in section 2 of this report.

We performed procedures including:

- Identifying journal entries to test based on risk criteria and comparing the identified entries to supporting documentation. These included those posted by senior management, manual journals posted irregularly by users and unusual opposing entries including cash or borrowings.
- Assessing significant accounting estimates for bias.

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF JOHN LEWIS PARTNERSHIP PLC (CONTINUED)

Identifying and responding to risks of material misstatement due to non-compliance with laws and regulations

We identified areas of laws and regulations that could reasonably be expected to have a material effect on the financial statements from our general commercial and sector experience, and through our discussion with the directors, and other management (as required by auditing standards, and discussed with the directors and other management the policies and procedures regarding compliance with laws and regulations.

As the Company is regulated, our assessment of risks involved gaining an understanding of the control environment including the entity's procedures for complying with regulatory requirements.

We communicated identified laws and regulations throughout our team and remained alert to any indications of non-compliance throughout the audit.

The potential effect of these laws and regulations on the financial statements varies considerably.

Firstly, the Partnership is subject to laws and regulations that directly affect the financial statements including financial reporting legislation (including related companies legislation), distributable profits legislation, pensions legislation and taxation legislation and we assessed the extent of compliance with these laws and regulations as part of our procedures on the related financial statement items.

Secondly, the Partnership is subject to many other laws and regulations where the consequences of non-compliance could have a material effect on amounts or disclosures in the financial statements, for instance through the imposition of fines or litigation. We identified the following areas as those most likely to have such an effect; health and safety, General Data Protection Regulation (GDPR), fraud bribery and corruption, environmental protection legislation, export control, Consumer Rights Act and employment law recognising the nature of the Partnership's activities. Auditing standards limit the required audit procedures to identify non-compliance with these laws and regulations to enquiry of the directors and other management and inspection of regulatory and legal correspondence, if any. Therefore, if a breach of operational regulations is not disclosed to us or evident from relevant correspondence, an audit will not detect that breach.

We discussed with the Audit and Risk Committee matters related to actual or suspected breaches of laws and regulations, for which disclosure is not necessary, and considered any implications for our audit.

Context of the ability of the audit to detect fraud or breaches of law or regulation

Owing to the inherent limitations of an audit, there is an unavoidable risk that we may not have detected some material misstatements in the financial statements, even though we have properly planned and performed our audit in accordance with auditing standards. For example, the further removed non-compliance with laws and regulations is from the events and transactions reflected in the financial statements, the less likely the inherently limited procedures required by auditing standards would identify it.

In addition, as with any audit, there remained a higher risk of non-detection of fraud, as these may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal controls. Our audit procedures are designed to detect material misstatement. We are not responsible for preventing non-compliance or fraud and cannot be expected to detect non-compliance with all laws and regulations.

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF JOHN LEWIS PARTNERSHIP PLC (CONTINUED)

6. We have nothing to report on the strategic report and the directors' report

The directors are responsible for the strategic report and the directors' report. Our opinion on the financial statements does not cover those reports and we do not express an audit opinion thereon.

Our responsibility is to read the strategic report and the directors' report and, in doing so, consider whether, based on our financial statements audit work, the information therein is materially misstated or inconsistent with the financial statements or our audit knowledge. Based solely on that work:

- we have not identified material misstatements in those reports;
- in our opinion the information given in the strategic report and the directors' report for the financial year is consistent with the financial statements; and
- in our opinion those reports have been prepared in accordance with the Companies Act 2006.

7. We have nothing to report on the other matters on which we are required to report by exception

Under the Companies Act 2006, we are required to report to you if, in our opinion:

- adequate accounting records have not been kept by the parent Company, or returns adequate for our audit have not been received from branches not visited by us; or
- the parent Company financial statements are not in agreement with the accounting records and returns; or
- certain disclosures of directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit.

We have nothing to report in these respects.

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF JOHN LEWIS PARTNERSHIP PLC (CONTINUED)

8. Respective responsibilities

Directors' responsibilities

As explained more fully in their statement set out on page 205, the directors are responsible for: the preparation of the financial statements including being satisfied that they give a true and fair view; such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error; assessing the Partnership and parent Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern; and using the going concern basis of accounting unless they either intend to liquidate the Partnership or the parent Company or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue our opinion in an auditor's report. Reasonable assurance is a high level of assurance, but does not guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements.

A fuller description of our responsibilities is provided on the FRC's website at www.frc.org.uk/auditorsresponsibilities.

9. The purpose of our audit work and to whom we owe our responsibilities

This report is made solely to the Company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006 and the terms of our engagement by the company. Our audit work has been undertaken so that we might state to the Company's members those matters we are required to state to them in an auditor's report and the further matters we are required to state to them in accordance with the terms agreed with the Company, and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the Company's members, as a body, for our audit work, for this report, or for the opinions we have formed.



(Senior Statutory Auditor)

for and on behalf of KPMG LLP, Statutory Auditor

Chartered Accountants

15 Canada Square, London, E14 5GL

21 April 2021

FIVE-YEAR FINANCIAL RECORD

for the year ended January

Income statement	2021 £m	2020 ¹ £m	2019 £m	2018 ² £m	2017 ² £m
Total trading sales / Gross sales³					
Waitrose	7,595.2	6,917.3	6,835.0	6,753.7	6,633.2
John Lewis	4,721.9	4,829.9	4,889.1	4,855.8	4,741.0
	12,317.1	11,747.2	11,724.1	11,609.5	11,374.2
Revenue					
Waitrose	7,043.9	6,373.3	6,429.5	6,354.7	6,245.5
John Lewis	3,727.9	3,778.0	3,887.2	3,861.1	3,780.7
	10,771.8	10,151.3	10,316.7	10,215.8	10,026.2
Trading operating profit⁴					
Waitrose	1,144.6	1,063.2			
John Lewis	554.4	733.6			
	1,699.0	1,796.8			
Operating profit before exceptional items and Partnership Bonus	288.4	231.5	227.0	364.4	478.2
Net finance costs	(157.6)	(161.6)	(67.0)	(71.6)	(107.8)
Profit before Partnership Bonus, tax and exceptional items	130.8	69.9	160.0	292.8	370.4
Exceptional items	(648.0)	107.4	2.1	(111.3)	171.2
Partnership Bonus	–	(30.9)	(44.7)	(74.0)	(89.4)
As a percentage of eligible pay	–	2%	3%	5%	6%
Taxation	65.2	(38.0)	(40.1)	(30.5)	(98.7)
Profit for the year	(452.0)	108.4	77.3	77.0	353.5
Number of employees at year-end	80,900	80,800	83,900	85,500	86,700
Average number of full-time equivalent employees	56,800	59,700	60,800	60,600	63,300

1 The Partnership has initially applied IFRS 16 at 27 January 2019, using the modified retrospective approach. Under this approach, comparative information is not restated and the cumulative effect of applying IFRS 16 is recognised in retained earnings at the date of initial application which was 27 January 2019.

2 IFRS 15 was adopted in 2019 on a fully retrospective basis. Figures for 2018 were therefore restated. However, figures for 2017 have not been restated.

3 The Partnership adopted a new organisational structure on 3 February 2020 (see note 2.1), creating a new non-GAAP measure known as total trading sales. 2021 and 2020 reflect total trading sales. Years 2019-2017 have not been restated and reflect gross sales.

4 The Partnership adopted a new organisational structure on 3 February 2020 (see note 2.1), creating a new non-GAAP measure known as trading operating profit, only 2020 has been restated.

FIVE-YEAR FINANCIAL RECORD (CONTINUED)

Balance sheet	2021 £m	2020 ¹ £m	2019 £m	2018 ² £m	2017 ² £m
Non-current assets	5,116.5	5,905.1	4,383.1	4,563.1	4,661.7
Current assets	2,368.9	1,795.6	1,929.0	1,690.6	1,627.6
Total assets	7,485.4	7,700.7	6,312.1	6,253.7	6,289.3
Current liabilities	(1,992.8)	(1,789.5)	(2,055.9)	(1,945.1)	(1,843.3)
Non-current liabilities	(3,567.9)	(3,352.4)	(1,636.2)	(2,006.9)	(2,404.0)
Total liabilities	(5,560.7)	(5,141.9)	(3,692.1)	(3,952.0)	(4,247.3)
Net assets	1,924.7	2,558.8	2,620.0	2,301.7	2,042.0
Borrowings	(903.5)	(762.6)	(1,047.2)	(936.8)	(966.9)
Net debt	(1,438.6)	(1,959.7)	(88.6)	(216.5)	(250.6)

¹ The Partnership has initially applied IFRS 16 at 27 January 2019, using the modified retrospective approach. Under this approach, comparative information is not restated and the cumulative effect of applying IFRS 16 is recognised in retained earnings at the date of initial application which was 27 January 2019.

² IFRS 15 was adopted in 2019 on a fully retrospective basis. Figures for 2017-2018 were therefore restated.

GLOSSARY

Throughout the Annual Report and Accounts, alternative performance measures (APMs) have been reported which are non-GAAP measures and are presented to provide stakeholders with additional financial information on the performance of the Partnership.

These APMs should not be viewed in isolation or as an alternative to the equivalent GAAP measure.

The measures detailed below are not defined by IFRS and therefore may not be directly comparable with other companies' APMs - this includes those in the retail industry.

APM	DEFINITION, PURPOSE AND RECONCILIATION		
Adjusted cash flow	Operating profit before PB, exceptional items, depreciation and amortisation, but after lease adjusted interest and tax. This measure is important to assess our Debt Ratio.		
		2020/21	2019/20
		£m	£m
	Operating profit before PB and exceptional items	288	231
	<i>add back</i>		
	Depreciation, amortisation and write-offs	525	553
	<i>less</i>		
	Lease adjusted interest	(149)	(145)
Average NMP hourly rate of pay above National Living Wage	Tax	(40)	(18)
	Adjusted cash flow	624	621
Average non-management Partner hourly rate of pay for Partners on permanent contracts and aged 18 years old and over, as a percentage above the 2020/21 National Living Wage of £8.72.		2020/21	2019/20
	National Living Wage	8.72	8.21
	Partnership pay	9.90	9.58
	Differential	13.5%	16.7%

APM	DEFINITION, PURPOSE AND RECONCILIATION																																																	
Return on invested capital (ROIC)	<p>Operating profit before PB and exceptionals, adjusted for above market rewards and a notional tax charge (at the statutory marginal tax rate for the year), as a proportion of average operating net assets. The measure is important as it demonstrates how effectively we are utilising our assets.</p>																																																	
		<table> <tr> <th></th><th>2020/21 £m</th><th>2019/20 £m</th></tr> <tr> <td>Operating profit before PB and exceptional items</td><td>288</td><td>231</td></tr> <tr> <td>Above market reward</td><td>105</td><td>160</td></tr> <tr> <td>Notional tax</td><td>(74)</td><td>(74)</td></tr> <tr> <td></td><td>319</td><td>317</td></tr> <tr> <td>Net assets</td><td>1,925</td><td>2,559</td></tr> <tr> <td><i>add back</i></td><td></td><td></td></tr> <tr> <td>Borrowings and overdrafts</td><td>904</td><td>762</td></tr> <tr> <td>Pensions deficit (net of deferred tax)</td><td>542</td><td>363</td></tr> <tr> <td>Lease liabilities</td><td>2,037</td><td>2,095</td></tr> <tr> <td>Operational cash</td><td>327</td><td>489</td></tr> <tr> <td><i>less</i></td><td></td><td></td></tr> <tr> <td>Cash and short-term investments</td><td>(1,519)</td><td>(916)</td></tr> <tr> <td>Operating net assets</td><td>4,216</td><td>5,352</td></tr> <tr> <td>Average operating net assets</td><td>4,784</td><td>5,512</td></tr> <tr> <td> ROIC</td><td> 6.7%</td><td> 5.8%</td></tr> </table>		2020/21 £m	2019/20 £m	Operating profit before PB and exceptional items	288	231	Above market reward	105	160	Notional tax	(74)	(74)		319	317	Net assets	1,925	2,559	<i>add back</i>			Borrowings and overdrafts	904	762	Pensions deficit (net of deferred tax)	542	363	Lease liabilities	2,037	2,095	Operational cash	327	489	<i>less</i>			Cash and short-term investments	(1,519)	(916)	Operating net assets	4,216	5,352	Average operating net assets	4,784	5,512	 ROIC	 6.7%	 5.8%
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APM	DEFINITION, PURPOSE AND RECONCILIATION			
Total net debts	The Partnership's borrowings and overdrafts, lease liabilities, derivative financial instruments and IAS 19 pension deficit (net of deferred tax), less any liquid cash, short-term deposits and investments.			
		2020/21 £m	2019/20 £m	
	Borrowings and overdrafts	904	762	
	Derivative financial instruments	16	18	
	Pension deficit (after deferred tax)	542	363	
	Lease liabilities	2,037	2,095	
	Liquid cash, short-term deposits and investments	(1,402)	(802)	
	Total net debts	2,097	2,436	
Total trading sales	Total trading sales represents the full customer sales value, including VAT, that is used to assess ongoing sales performance. It is before adjustments for sale or return sales and other accounting adjustments.			
	2020/21	Waitrose £m	John Lewis £m	Partnership £m
	Total trading sales	7,595	4,722	12,317
	Value added tax	(439)	(767)	(1,206)
	Sale or return, concessions and other accounting adjustments	(112)	(227)	(339)
	Revenue	7,044	3,728	10,772
	2019/20	Waitrose £m	John Lewis £m	Partnership £m
	Total trading sales	6,917	4,830	11,747
	Value added tax	(400)	(784)	(1,184)
	Sale or return, concessions and other accounting adjustments	(144)	(268)	(412)
	Revenue	6,373	3,778	10,151

APM	DEFINITION, PURPOSE AND RECONCILIATION			
Trading operating profit	Trading operating profit represents operating profits used to assess the performance of the John Lewis and Waitrose brands and determine the allocation of resources to them. It excludes centrally managed costs, including fixed property costs and depreciation.			
	2020/21	Waitrose £m	John Lewis £m	Partnership £m
	Trading operating profit	1,145	554	1,699
	Centrally managed costs			(900)
	Depreciation and amortisation			(510)
	Exceptional items			(648)
	Net finance costs			(158)
	Loss before tax			<u>(517)</u>
	2019/20	Waitrose £m	John Lewis £m	Partnership £m
	Trading operating profit	1,063	734	1,797
	Centrally managed costs			(1,026)
	Depreciation and amortisation			(539)
	Exceptional items			107
	Net finance costs			(162)
	Partnership Bonus			(31)
	Profit before tax			<u>146</u>

TERM	DEFINITION
Above market reward	These are Partner benefits which are higher than those typically paid by our competitors, as a result of the Partnership model. Above market rewards principally includes pensions, long leave, Partner discount and costs of our democracy. This measure is important for adjusting our financial Key Performance Indicators (KPIs) to be able to assess them against our competitors.
Amortisation	An expense recorded to write down intangible assets to their residual values over their useful economic lives (UEs).
Amortised cost	The value of an intangible asset after accounting for amortisation and impairment. Sometimes referred to as carrying value or net book value.
Assets	Something of value that the Partnership owns, benefits from, or has use of, in generating income or cash.
Audit	A detailed review and inspection of accounts, disclosures and procedures, checking for consistency, accuracy and adherence to accounting and reporting standards. The objective is to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement.
Auditor	An individual or body who undertakes the work required for an audit. The Partnership's auditor is KPMG LLP.
Average hourly pay	The pay received per hour, calculated from pay received divided by hours worked.
Average NMP hourly rate of pay	Average non-management Partner hourly rate of pay for Partners on permanent contracts and aged 18 years old and over.
Balance sheet	A financial statement that shows assets, liabilities and capital/equity at a particular point in time, giving a summary of what the Partnership/Company owns and what it owes.
Biomethane	An alternative to fossil fuels, similar to natural gas, which is produced from organic waste, and is suitable for use as vehicle fuel.
Capital investment/ expenditure	Cash outflows in relation to additions to tangible fixed assets (property, plant, and equipment), and intangible assets (IT software) recognised on the balance sheet.
Cash equivalents	Short-term deposits which the Partnership can quickly and easily convert into cash.
Cash flow (statement of)	A financial statement that shows how changes in balance sheet accounts, income and expenses affect cash and cash equivalents. It breaks the analysis down to operating, investing and financing activities. It is a measure of cash generation, working capital efficiency and capital discipline of the business.
Click & Collect	A service offered through JohnLewis.com to enable customers to buy or order goods and collect from a local Waitrose or John Lewis.
Committed credit facilities	Similar to a personal overdraft, this is an agreement with banks to provide the Partnership with additional funds as and when we might require.
Cost of sales	The cost to the business of producing and purchasing goods sold over a specific period of time.

TERM	DEFINITION
Debt	Money the Partnership has borrowed which it is required to repay.
Depreciation	An expense recorded to write down non-current assets to their residual values over their useful economic lives (UEs).
Exceptional items	Items of income and/or expense which are significant by virtue of their size and nature are presented as exceptional items. The separate reporting of exceptional items helps to provide an indication of the Partnership's underlying business performance.
Executive Team	Responsible for developing and recommending Partnership strategy to the Partnership Board and setting the direction for the Partnership in the execution of that strategy; and responsible for prioritising the allocation of capital and resources.
Financial year	The period of 371 days, or 53 weeks, running from 26 January 2020 to 30 January 2021.
Foreign exchange (FX) exposure	The risk that the Partnership faces when a financial transaction is denominated in a currency other than GBP (Sterling). This will primarily be for products the Partnership sells which we buy from suppliers in another currency.
Freehold	Outright ownership of land and buildings and the right to control usage for an unlimited period without any future obligation to transfer ownership to another party.
Full-time equivalent (FTE)	The hours worked by one Partner on a full-time basis. The concept converts the hours worked by several part-time Partners into the hours worked by full-time Partners to enable like-for-like comparisons of resource.
GAAP	Generally Accepted Accounting Practice. Non-GAAP measures are those which are not required under IFRS, but are included to enhance the relevance and usefulness of the financial statements.
General Data Protection Regulation (GDPR)	An EU directive, approved on 14 April 2016 and enforced from 25 May 2018, which governs the way personal data is handled by organisations.
Gross domestic product (GDP)	A measure of a country's economy, the total value of goods produced and services provided by a country during one year.
Hedging	A financial technique that helps to reduce or mitigate the effects of a measurable type of risk.
Her Majesty's Revenue and Customs (HMRC)	The UK Government department that administers and collects taxes, including corporation tax and value added tax (VAT).
IAS	International Accounting Standards.
IFRS	International Financial Reporting Standards.
Impairment	A reduction in the value of an asset due to a fall in the expected future economic benefits generated by the asset.
Investment	Total investment spend includes capital investment, revenue investment, restructuring and redundancy costs, and lease disposal costs.
KPI	A Key Performance Indicator is a type of performance measurement used by businesses to check progress towards their goals.
Lease	A contract in which one party lends land, property or services to another for a specified period of time, usually in return for payment.

TERM	DEFINITION
Like-for-like (LFL) sales	Comparison of sales between two periods in time (e.g. this year to last year), removing the impact of shop openings and closures. Waitrose like-for-like sales excludes fuel.
Liquidity	The cash, short-term investments and undrawn committed credit facilities we have available to us, which we can use to settle liabilities as they fall due.
Long leave	The long leave scheme provides Partners up to six months' paid leave after 25 years' Partnership service.
Margin (gross)	The difference between a product or service's selling price and its cost of purchase/production.
Margin (operating)	The difference between a product or service's selling price and all costs, including purchase/production, distribution and other operating costs.
Market comparator	John Lewis - British Retail Consortium (BRC), Waitrose - Kantar Worldpanel.
Material items	Items in the financial statements are material if their omission or misstatement could influence the economic decisions of users. Items may be material by size or by nature.
Materiality concept	The universally accepted accounting principle that all material matters should be disclosed in the accounts.
Net book value	The value of an asset after accounting for amortisation/depreciation and impairment. Sometimes referred to as carrying value.
Net finance costs	Interest payable on our borrowings, our defined benefit pension scheme and long leave scheme, offset by interest received from investments.
Net Promoter Score (NPS)	An external benchmark which calculates a measure between -100 and +100, that shows the willingness of customers to recommend products and services to others. A larger positive figure represents a higher level of customer satisfaction and loyalty to a brand.
Never Knowingly Undersold (NKU)	John Lewis' price promise to customers to match the prices of high street competitors and monitor the prices of branded products on a daily basis.
Non-management Partners (NMP)	Level 9 and Level 10 Partners, excluding Assistant Section Managers in Waitrose.
Operating profit/(loss)	Profit/(loss) earned by the Partnership over a specific period of time, before accounting for net finance costs and tax.
Operating profit/(loss) before exceptional items	Profit/(loss) earned by the Partnership over a specific period of time, before accounting for exceptional items, net finance costs and tax.
Partners (members)	The name given to all employees of the John Lewis Partnership.
Partnership Board	The Partnership Board is one of the three governing authorities of the Partnership. As stated by Rule 38 of the Constitution, the Board has ultimate responsibility for issues of major policy and for allocating the financial and other resources of the business to keep the Partnership true to its Principles - both in terms of the vitality of its commercial progress and its distinctive employee-ownership objectives.
PB	Partnership Bonus.

TERM	DEFINITION
Pension deficit (accounting)	The accounting deficit is the pension deficit presented in the balance sheet. It is presented in accordance with the requirements of IAS 19, which requires all companies to assume their pension fund grows at a standard rate reflecting a relatively low level of risk.
Pension deficit (actuarial/funding)	The actuarial or funding deficit is a measure that is used to judge the money that the Partnership needs to contribute to the pension scheme based on predicted growth rates and risks specific to the Partnership's scheme.
ppt	Percentage point.
Profit/(loss) before tax (PBT)	Profit/(loss) generated by the Partnership over a specific period of time, before accounting for tax.
Profit/(loss) before tax before exceptional items (PBTBE)	Profit/(loss) the Partnership earned over a specific period of time, before accounting for tax and exceptional items.
Qualifying services	A person's services as a director of the company and his or her services at any time while he or she is a director of the company.
Residual value	Property residual values are assessed as the price in current terms that a property would be expected to realise if the buildings were at the end of their useful economic life.
Restructuring	A change to internal organisational structures, designed to streamline processes and create more efficient and cost-effective ways of working.
Revenue investment	Investment spend recognised directly in the income statement.
Short-term investments	Cash placed with financial institutions (such as banks) for a period of between three months and a year. The Partnership receives more interest on these short-term investments compared to immediately accessible cash kept in bank accounts.
Solvency	Ability of the Partnership to meet its long-term financial obligations (e.g. repayment of its debts).
Trading operating profit %	Trading operating profit divided by total trading sales.
Value added tax (VAT)	A tax on the sales value of a product or service which is collected by HMRC.
Variable Net Asset Value (VNAV)	Fund prices change on a daily basis in relation to the net asset value of the underlying holdings included within the fund.
Working capital	The cash the Partnership utilises as part of its day-to-day trading operations. This includes aspects such as the money tied up in stock, the money we owe to suppliers for goods we haven't yet paid for, and any money we may be owed from customers and suppliers.

GENERAL INFORMATION

INDEPENDENT AUDITOR

KPMG LLP

REGISTERED OFFICE

John Lewis Partnership plc, 171 Victoria Street, London, SW1E 5NN.

Incorporated and registered in England & Wales, under Company no. 00238937.

PREFERENCE SHARES

Any remaining queries relating to the Preference Shares previously in issue (which were cancelled in November 2016) should be directed to the Company Secretary, John Lewis Partnership plc, 171 Victoria Street, London, SW1E 5NN.

MORE INFORMATION

For more information about the John Lewis Partnership please visit:

www.johnlewispartnership.co.uk

twitter.com/JLPartnership

linkedin.com/company/john-lewis-partnership

For more information about Waitrose or John Lewis please visit:

www.waitrose.com

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twitter.com/waitrose

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CONTACT INFORMATION

You are invited to contact us with your enquiry or comments. To enable us to respond to your enquiry as quickly as possible, please use the 'Contact us' section on the John Lewis Partnership website.